

We've taken the first step in
our 3 year drilling program

Strategic Business Development
University of Alberta
5-18 Business Building
Edmonton, Alberta T6G 2G6

Early Results...

Testing Concepts...

Pushing Boundaries...

ROSETTA EXPLORATION INC.
- 2004 Annual Report -

200 Years Ago, Asking “What If” was just the Start for a French Explorer

In 1799, the discovery of the Rosetta Stone was just the beginning of a long journey. Napoleon's soldiers had found another Egyptian artifact, another enigma brought to bear on North African soil.

Time and sand had done their work to the broken black basalt slab—at first glance a stone as unimpressive as it was dirty ... many questions, few answers ...

... upon closer examination, scholars recognized the stone's inscriptions to be one long passage written in three different scripts—hieroglyphics, demotic and Greek.

The key to unlocking the 15 century long mystery of hieroglyphics was now possible. But who would dare to relate the three texts and unscramble the symbols with complete accuracy?

It's said that French scientist Jean Francois Champollion's path was lit by his fluency in 12 ancient languages, living and dead; so he certainly started with an assemblage of the right tools.

What he didn't know, he taught himself with methodical and focused study. He built and guarded his knowledge base over a 20 year exploration struggle. In the early years, Champollion sacrificed comfort for knowledge. He would write to his brother from Paris libraries “... my knowledge is growing fat, but my belly is growing thin.”

But he pressed on.

Patterns emerged; he began to crack the code, letter by letter. Each answer became a clue to unlocking the next mystery. It required perseverance, passion for new knowledge, thinking outside the box to see order in chaos, and a disciplined approach. In 1822, Champollion completed the world's first hieroglyphic dictionary.

He had successfully unlocked Egypt's lost past.



5 Years Ago, Asking “What If” was the Start of Rosetta

What if there are unseen new play types in the mature Western Canadian Sedimentary Basin? The truth is Wildcat Exploration in Canada has dramatically declined since the 1970's, with only 15 discoveries greater than 100 BCF in the past 14 years. Could there be misunderstandings of the geological record that hide billion dollar discoveries?

Many questions ... few answers ...

... upon closer examination of the regional geology, our team recognized a handful of concepts that have remained untested. The key insights to unlocking a discovery of more than 100 BCF may be in hand.

We're outside the box. The risk of failure is palpable. Nevertheless, we dare to attempt the unscrambling of faint signs.

Science, rigor and risk management constitute the backbone within our assemblage of the right tools. What we didn't know, we've admitted. These admissions establish a base for methodical learning and focused studies. We've been building and guarding our special knowledge base over our five year exploration struggle.

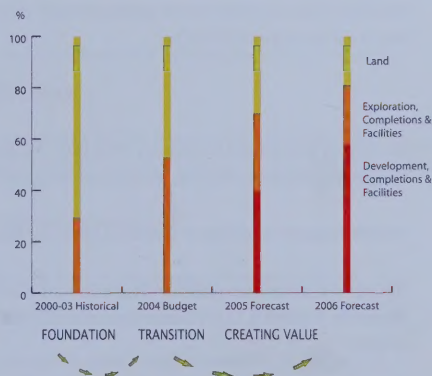
In our first few years, “our knowledge has been growing fat, but our belly has grown thin.” We see this as the badge of courage needed for the Wildcatter and those who support him.

We're intrigued by the early findings of our Rosetta Stone. We're dedicated explorers ... pushing the boundaries of the science ... driven to solve the unknown ... each well drilled a potential company maker or a clue towards discovery ... we're proud to call ourselves Rosetta Exploration.

For us, it's about making that single discovery, the unlocking of the lost geological past that ushers in a new age ... an age filled with new knowledge and revelations. And so we move forward with the first step in drilling a three year commitment to testing our ideas.

Management and the Team have pursued our exploration plan patiently and methodically for five years. As the graph shows, during the Foundation Years of 2000 through 2003, Rosetta invested over 70% of its funds in building its exploration base.

In 2004, we've initiated our commitment to drilling ... testing our concepts ...



Letter to our Fellow Explorers

Dear Shareholder,

2004 was a watershed year for Rosetta. It's the year we began drilling our 33 well portfolio.

Our First Four Years Generated Five Major Exploration Business Units

After four years of investing in our proprietary regional studies and the generation of large ideas, we entered 2004 with plans to begin testing these ideas in four of our five Major Exploration Business Units.

Each of Our Major Exploration Business Units is Distinguished by a Unique Exploration Idea or Play Type

The mandate of Major Business Units at Rosetta is to generate Leads and Prospects of 100 BCFe, or larger. A discovery in the target formation, in any one Exploration Unit, could build a large company (we define large to be \$100 million to \$1 billion).

We're Carefully Selecting a Drilling Portfolio from all the Prospects Contained Within Our Exploration Business Units

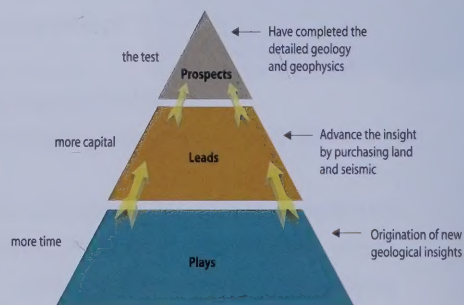
Our Exploration Units enable us to manage risk in our high-risk, high-potential business plan.

Optionality comes from diversifying our risk across both multiple Exploration Units (i.e., across multiple geological concepts), and across multiple independent Prospects within each Exploration Business Unit.

The Portfolio is comprised of 33 wildcat exploration wells to test 11 Prospects and 13 Leads. Nine of these Prospects and 11 of these Leads were selected to test two New Play Types and two New Insights on conventional play types within four of our Exploration Units.

Two Prospects and two Leads were chosen to test conventional deep gas ideas within our Deep & Steep Unit.

Our internal exploration processes suggest that the *un-risked resource potential* within our Exploration Business Units is 4.4 TCFe. For reference, the entire Canadian industry produced 6.1 TCF in 2003. Our analysis shows that, fully risked, Rosetta's working interest share of the mean potential of the 33 well program is 224 BCFe.



Rosetta's Exploration Process

Early Drilling Success in our Mississippian Unit

Our drilling year started in February 2004 with the testing of our 10-28 Prospect in the Mississippian Exploration Business Unit. The well resulted in a discovery that has led to more Prospects for future drilling. Husky operates the 10-28 well.

The Mississippian Exploration Business Unit is our Minor Business Unit.

The well was placed on-stream in September with an average gross production rate of 2.4 MMCF/day for the first four months. Rosetta's interest in this well is 13.5% before payout and 28.5% after payout. Payout is gas price dependent, but currently anticipated in the spring of 2006.

Rosetta and Anadarko Petroleum Corporation Have Joined Forces in a Joint Venture Designed to Test Rosetta's Exploration Ideas

In October, we announced our multi-well strategic partnering relationship with Anadarko for testing ideas in five of our Exploration Business Units.

We consider Anadarko to be one of the leading exploration companies in the world.

It's estimated that the 33 wildcat exploration wells required to test our current portfolio will take three years, commencing with the season just completed. Anadarko's commitment to this program is a minimum of \$22.25 million.

Our First Winter Drilling Program was Shortened Due to Weather

In November 2004, we announced that our Winter Drilling Program (September 2004 to March 2005) would consist of five to 13 Wildcat wells, aimed at testing the concepts in four of our Exploration Business Units.

With winter coming late, we had to cut short the number of Exploration Units we would test from four to two. We chose to focus on Khnum and California and we set a revised target of drilling up to 11 wildcat exploration wells to test these two "out of the box" ideas.

The shortened drilling season meant we were able to drill seven of the 11 wells targeted this winter. Of the seven wells drilled, four are being tied in, with the remaining three wells awaiting further evaluation this summer or next winter, as weather and ground conditions permit.

Early Indications for the Khnum New Insight and California New Play Type are Encouraging

We designed our exploration program based upon what we've observed from worldwide exploration—meaning that most Prospects would have the need for a "dry hole tolerance". For sizable Prospects, particularly for New Play Types, more than one well would be required to make a discovery. We believe that the first well in a Prospect, if not successful, will likely provide the necessary data to enable a discovery in a subsequent well. Drilling in both the Khnum and California Units gathered encouraging early indications that our concepts for these two Business Units are valid.

Our early encouragement means that we'll be actively engaged in analyzing these results in detail over the next several months, as we prepare a strategy for our 2005 summer and 2005/06 winter drilling season programs.

We evaluate the un-risked resource potential in the Khnum and California Business Units to be 3 TCF. If our analysis is correct, Rosetta's working interest share of the mean potential in the 11 Prospects and Leads contained in the Khnum and California Units is 184 BCF.

Four of Our Seven Winter Wildcats are Being Put on Production

We're building the infrastructure required to place on production by this summer/fall, four of the seven wells drilled in our Winter Program.

The four wells had brief flow tests conducted on five separate zones. Flow rates on these five zones tested between 40 BOE/d to 800 BOE/d, on short preliminary production tests. Rosetta's working interests in these wells range from 69% to 75%.

During the latter half of March, Rosetta tied in two of these wells for testing and production. Flow rates have not yet stabilized; therefore, we cannot at this time provide meaningful production rates.

However, if these tests are indicative of sustainability, initial production to Rosetta's interest from our 2004 Winter Program would be roughly in the range of 640 BOE/day.

Our corporate capital investment in the Khnum and California Units from inception through March 31, 2005 totals \$13.1 million. This investment includes all current and historical land, seismic, drilling, completing and tie-in costs for these areas. If our 2004 Winter Program initially produces, prior to declines, 640 BOE/day, it will have resulted in an "exploration acquisition" cost of \$20,500 per flowing BOE/day.

Including our Mississippian Unit's "exploration acquisition" cost of \$8,200, the "exploration acquisition" cost of both programs (January 1st, 2004 to March 31st, 2005) is \$19,400 per flowing BOE/day.

Our Initial Flowing BOE "Exploration Acquisition" Costs could Drop Considerably

We believe that over time, this \$19,400 figure will overstate our actual flowing BOE "exploration acquisition" cost. Our exploration costs per initial flowing BOE/day currently range from \$8,200 (Mississippian Unit) and \$11,800 (Khnum Unit), to \$61,000 (California Unit).

These initially high per Exploration Unit numbers and ranges reflect:

- ▶ *The inclusion of all costs for the operations we completed this drilling season, including operations that were not concluded*
- ▶ *Possible restricted flow rates on a new pool discovery,*
- ▶ *The accumulation from inception to March 31, 2005 of our total land (the right to drill on over 88,000 gross acres) and seismic expenditures for each of these three Exploration Units being amortized over just an initial seven wildcat wells,*
- ▶ *Our inability to get all wells evaluated due to access problems resulting from weather, and*
- ▶ *The calculations being performed on a per Exploration Business Unit basis (where there remain a large number of as yet undrilled Prospects), as opposed to a per Prospect basis.*



We believe subsequent drilling operations in these Units could lower our "exploration acquisition" costs, hopefully substantially.

***We caution the reader that due to the timing of the drilling of these wells, these initial figures do not speak to reserves discovered or sustainable production rates. All figures should be considered very preliminary due to short test periods and limited production, and are only given to enable the reader to assess progress with the same metrics Management must use at this time. The initial production declines of the aforementioned wells may be steep. Sustainable production rates, declines and reserves cannot be estimated until all wells are connected and stabilized. For instance, three zones in two wells were connected in March. Two of these zones are producing at stabilized rates as anticipated; however for reasons as yet undetermined, one well that commenced production at 236 BOE/day has subsequently declined to 58 BOE/day after 300 hours of production. Pressure and further production data are being gathered to determine what can be done to improve long term production from the well. These figures are preliminary and may not be representative of near term cash flow potential and are not representative of significant reserve delineation.**

We Will be Designing a Summer Drilling Program

Upon completion of our analysis of results, we will plan summer and winter drilling programs. The size and nature of these programs will be dependant on our ability to access Prospects which are critical to getting our 33 well program drilled and which will build on what we've learned this winter.

Capital Resources and Cash Flow Sufficient for 2005/06 Drilling Programs

We end the first quarter of 2005 with approximately \$15 million in cash. Coupled with cash flow from operations, these funds should be adequate to fund our participation in both summer 2005 and winter 2005/06 drilling operations.

It's anticipated our 2005/06 drilling program will test play concepts in each of the Khnum, California, Squid, Deep & Steep and Mississippian Exploration Business Units.

We're Expanding our Expertise

Rosetta's increased drilling activity is demanding more resources.

I want to take this opportunity to welcome to our geology team Mike Crawford and Trish Lavery, and to our Board of Directors, Randy Royer.

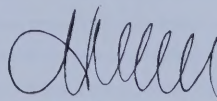
I also want to thank Greg Royer for his guidance during our formative years and wish him well in his new full time commitment to growing Royal Host Real Estate Trust.

Our Quest for Big Ideas has Turned to Looking for Big Answers

I want to take this opportunity to thank our team members who have dedicated themselves to creating and testing some unique exploration concepts.

2004 was a watershed year. We developed an excellent relationship with our joint venture partner, Anadarko; five of our eight 2004 and winter 2004/05 Wildcat exploration wells (to March 31, 2005) are being put on stream; early indications are that our "out of the box" ideas in the Khnum and California Business Units have merit; we acquired the rights to drill on over 94,000 acres of strategic lands; and we believe that our drilling will move us to a positive cash flow position in 2005.

Yours truly,



Jim Malcolm,
Chairman and Chief Executive Officer
April, 2005

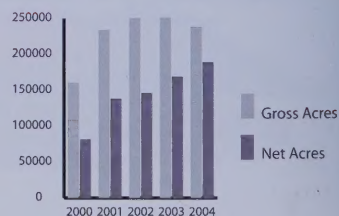
We Methodically Built Our Ideas over Five

To achieve our plan, we needed large scientifically validated ideas. So we built not one, not two, but six idea generating machines that we call "Exploration Business Units". Each Unit has its own geological focus, specialized team and resources. Each Unit in itself could be a compelling stand alone exploration business. Each Unit is supported by and premised upon thousands of square miles of proprietary regional studies that ground all of our geoscience. These studies have taken us from theory to the top of the Alberta Rockies to "see" the rocks for ourselves. Where we couldn't touch the rocks, we brought in experts from around the world who had. Our studies are rigorous and they're multi-disciplinary. They range from the disciplines of regional geology and hydrodynamics to the minutiae of core and cuttings work. Our geoscientists have taken extreme care to leave no stone unturned—we literally put our ideas "under the microscope" with unrelenting frequency. For example, 670 samples from 67 wells have been examined in the Khnum Unit alone (this in addition to the examination and descriptions of 195 cored wells.) In the California Business Unit, we expanded the team in 2004 to assist in our examination of the cores and/or cuttings from 160 wells within the hypothesized trend. In the Squid Business Unit, cores and samples have been examined from 82 wells that penetrated the base of our target formation in our Prospect area. In addition to rock and outcrop review, Rosetta's studies include world analogue reviews, geophysics, geochemistry, remote sensing, gravity, magnetics, reservoir and pressure work. These studies, in total, span a geographic area of 67,300 square miles—an area roughly the size of the state of Oklahoma—so we've turned a lot of stones. These studies are proprietary to Rosetta and form a key competitive advantage. Our current portfolio of 33 wildcat exploration wells is the result of having put 100 exploration opportunities and concepts, over a five year period, under a great deal of scrutiny.

and ... We're Methodically Building Our

To achieve our plan, we need large, strategic land positions within each Exploration Business Unit. This means having enough land to capitalize upon a discovery—but not so much land that drilling dollars become stranded in the event of a disproven concept in any one Unit. In an industry that has seen average land prices nearly double over the past two years, Rosetta has had to think outside of the box. We're aiming to make discoveries before industry arrives, often in "cold" land areas. Our plan is to buy enough prospective land, in each Unit, to control the evolution of our idea and the timing of our exploration process. Our strategy requires patience. In some cases, we've delayed drilling on the first well within a play so that we could control the "right" amount of land on a potential trend. Our strategy demands lead time. Years of science goes into each Unit before even getting to the land acquisition stage. For instance, in our California, Khnum and Squid Units, geological concepts were being devised and refined years before Rosetta even existed. Then, once inside the Rosetta exploration process, multi-disciplinary studies are brought to bear. As prospectivity emerges, so too do our Unit's land positions, in a stepwise fashion. Rosetta's land strategy is driven by a three member land team that has consistently built Rosetta's 188,000 net acre land base at low cost.

Corporate Year End Total Gross & Net Acres



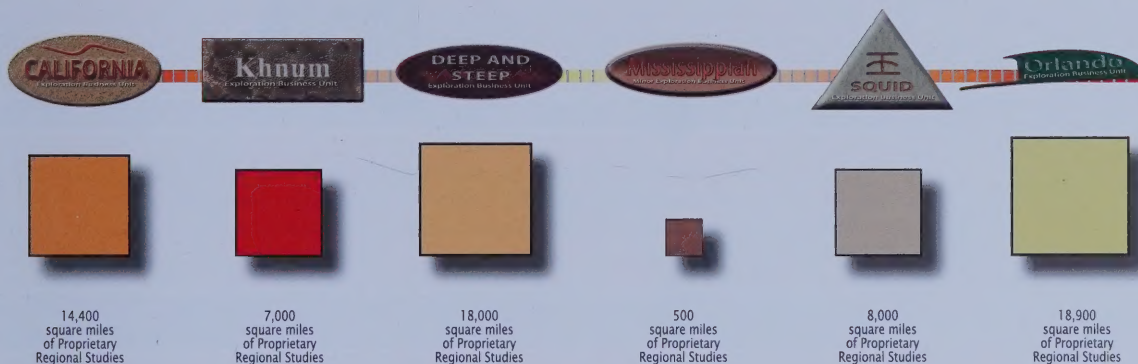
Cost Per Acre*



*Alberta Crown acquisitions

Years in Each Unit ...

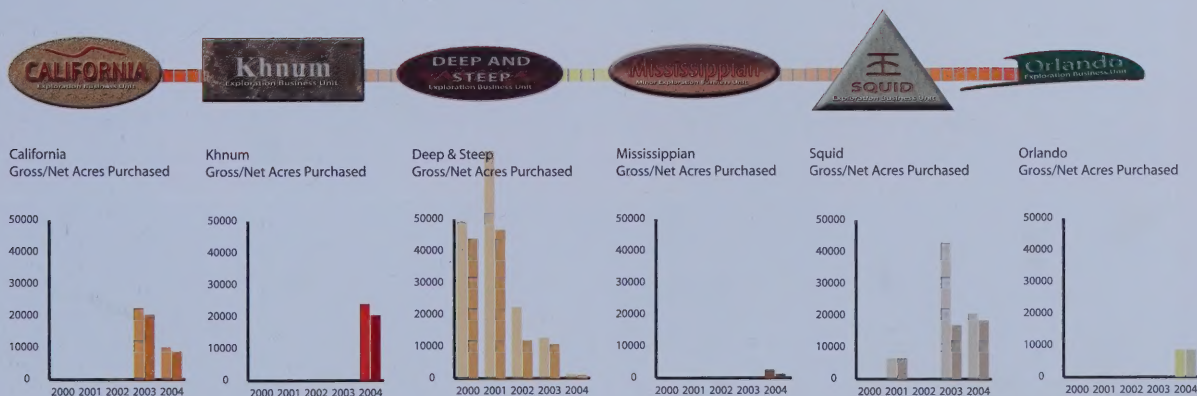
- 67,300* Square Miles of Proprietary Regional Studies -



*this total includes one 500 square mile study that has not been allocated to an exploration business unit.

Strategic Land Base in Each Unit

- Building Our Land Base -



Rosetta's Approach to High-Risk / High-Reward Optionality and Portfolio Management—Our

START

Rosetta is
a Prospect Generator



Rosetta has scrutinized 100 ideas to generate its portfolio of Prospects. From 100 ideas, five new concept Business Units and one conventional insight Business Unit have emerged.



67,300 square miles
of Proprietary
Regional Studies



We reduce risk with our Proprietary Regional Studies. Rosetta has undertaken over 67,300 square miles of regional studies over its first four years. Few others have given a G&G team the time to do this kind of work since the majors disbanded their regional teams 20 years ago. These studies are proprietary to us. This regional work is the backbone of and gave birth to our Exploration Business Units.

Apply Intense
Scrutiny



We reduce risk by applying intense scrutiny. Rosetta subjects each idea, within each Business Unit, to a series of rigorous peer reviews. Reviews are conducted internally by our G&G team, our advisory board, our risk management team's 10 Principles System, and when appropriate, externally by world experts and finally, our drilling partners. Over time, under relentless scrutiny, the best ideas progress from plays to leads to drillable prospects, within each Unit.

Current Portfolios
Selected from
our Spectrum
of 100 Ideas



We've reduced risk by selecting several portfolios from our original spectrum of ideas. From 100 ideas, we've carefully selected the best 24 ideas within five distinct Exploration Units, comprising 11 Prospects and 13 Leads. This provides diversification both across Exploration Units (across geological concepts) and within Exploration Units, as each Unit has its own set of diverse Prospects and Leads. Portfolios within a Portfolio.

First Step of a 3 Year
Program for Testing
Our Ideas
Began in Q4, 2004



Our processes suggest that the **un-risked resource potential** within our Exploration Business Units is 4.4 TCFe. Our 2004 winter program was only the first program of what could be up to five programs to be drilled over the three year period.

DRILL

Exploration is a Methodical System of Portfolios within a Portfolio



Three Year Joint Venture Commitment

Finding a like-minded joint venturer and drilling a portfolio of high quality Prospects are two founding principles of our business plan. In October, Rosetta entered into a three year drilling joint venture with Anadarko Canada Resources—a subsidiary of Anadarko Petroleum Corporation—a company we feel is the premier independent exploration company in the world today. Anadarko's commitment is the result of 10 months of due diligence that was completed on Rosetta's portfolio and exploration process. Rosetta received a \$9 million cash payment plus a \$2 million credit note (to purchase land and seismic) in exchange for the right to participate in our exploration drilling program. Upon a further expenditure of \$11.25 million by Anadarko for exploration drilling (for a total of \$22.25 million), Anadarko will earn a 25% working interest in Rosetta lands, subject to certain exclusions. Anadarko contributes its in-depth exploration expertise and select proprietary assets towards drilling our 33 well program to test concepts in five of our Exploration Business Units.

Highlights of First Season Testing

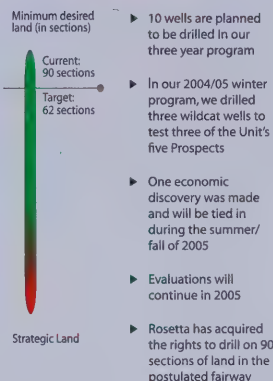
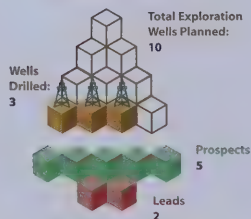
Our Winter Program was the first of up to five drilling programs planned to test our 33 well portfolio with unrisked resource potential of 4.4 Tcfe. Our Khnum and California Business Units had discoveries with brief tests of 40 BOE/d to 800 BOE/d.

Early indications for the Khnum New Insight and California New Play Type are encouraging. Our "exploration acquisition" cost from all discoveries made in 2004/05 is \$19,400 per initial flowing BOE. We hope to reduce this figure significantly as we drill more wells.

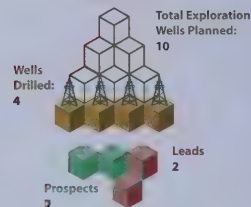
For each Business Unit, the adjacent graphs show our progress in relation to the first season of drilling our 33 well program, the number of wells to be drilled, total Prospects and Leads to be tested in the 33 well program, and total lands that we've acquired the right to drill on (to March 31, 2005).



California Portfolio

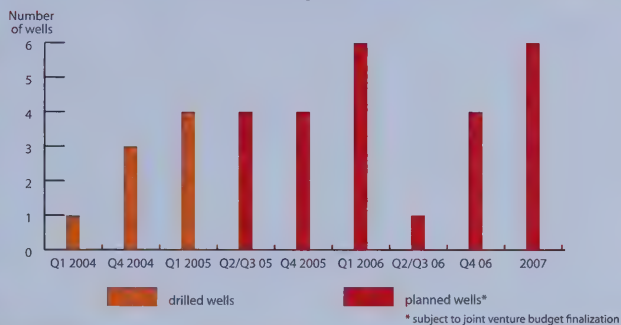


Khnum Portfolio

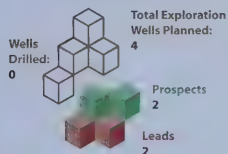


current plans for 33 wells to test
24 ideas in
5 geological concepts

- Drilling Plan -



Deep & Steep Portfolio



Minimum desired land (in sections)

Target: 200 sections

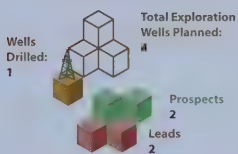
Current: 158 sections

- Four wells are planned to be drilled in our three year program, to test four Prospects and Leads
- No drilling was initiated in the Deep & Steep group during our winter program
- The drilling of two deep Prospects is anticipated for Q4, 2005 and Q1, 2006
- Rosetta controls 158 sections of land in the fairway

Strategic Land



Mississippian Portfolio



Minimum desired land (in sections)

Target: 12 sections

Current: 8 sections

- 4 wells are planned to be drilled in our three year program to test 4 Prospects and Leads
- In Q1, 2004 we drilled one wildcat exploration well to test one Prospect
- One economic discovery was made and tied-in
- A follow up test is anticipated in 2005
- Rosetta has acquired the rights to drill on 8 sections of land in the postulated fairway

Strategic Land



Squid Portfolio



Minimum desired land (in sections)

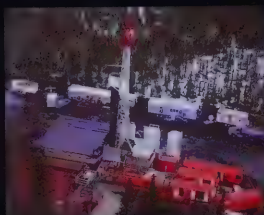
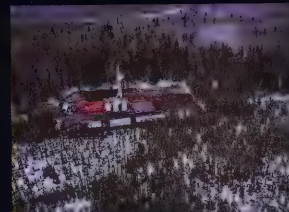
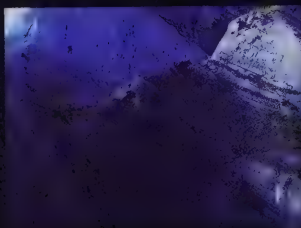
Target: 350 sections

Current: 76 sections

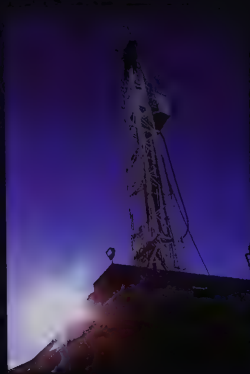
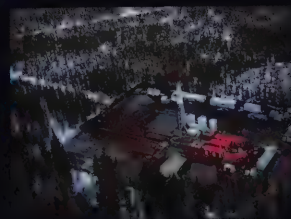
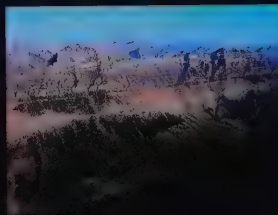
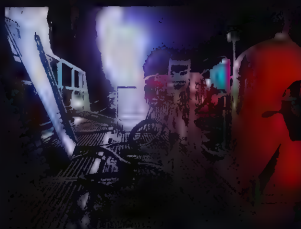
- Five wells are planned to be drilled in our three year program, to test five Leads
- No drilling was initiated in the Squid group during our winter program
- Testing of the Squid concept is anticipated for the winter of 2006
- Rosetta controls 76 sections of land in the postulated fairway

Strategic Land

Dedicated Explorers



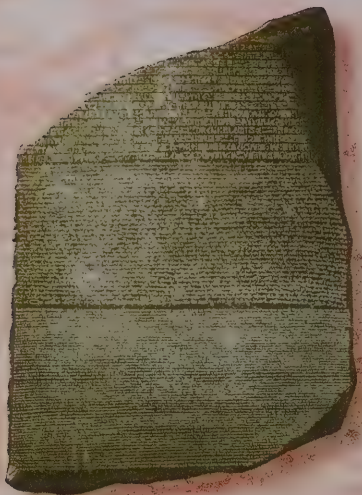
Testing Concepts



Pushing Boundaries...



Our Exploration Business Units:
Past, Present and Future



Credo for a New Kind of Wildcatter

North America could never have been discovered by staying within sight of land.

To explore is to "travel over new territory for discovery." In today's oil and gas world, "explore" has come to mean the antithesis of "explore"; it's come to mean "stay with the masses within sight of land."

A true explorer travels where no man has gone before. True explorers of yore wore the badge of "wildcatter," someone who "drills wells in the hope of finding oil in a territory not known to contain oil." Rosetta is a true wildcatter, not the "swashbuckling," "mud on your boots" style of wildcatter, but rather the thorough, rigorously technical, portfolio managed wildcatter of the 21st century ... and we're doing it for both love and money.

We're driven to make prolific discoveries and therefore we must explore. We believe that amazing things can happen when the right group of people explore with the right plan and the right tools. Exploring requires the spirit to challenge your assumptions; it requires the spirit to question the status quo in a frontier formed hundreds of millions of years ago.

Frontiers don't come with maps, so we're making our own. Is failure in exploration worth the cost? Each person must decide that for themselves. The spirit of exploration is either in your soul or not.

Is the amount of time required to explore worth the cost? In truth, the twists and turns of exploration set the pace ... closing one door often opens another ... we don't set the timing—but we must push to achieve our mandate.

Our mandate is to pursue targets that could be worth more than \$100 million, with true potential often being an order of magnitude larger than that. On a continent where our industry is struggling to find conventional resources within sight of land, Rosetta is daring to challenge the industry's conventional wisdom that North American large land based discoveries have all been made.

Rosetta is an amalgamating generator of proprietary ideas. For us it's about tapping the insights of all 29 men and women in the Rosetta sphere, whom, in their careers, have participated in finding 13 TCF of gas—more than \$25 billion at today's prices. This proven intellect is catalyzed with input from acknowledged world experts, channeled by a thoughtful exploration process ... driven by continuous, unrelenting, rigorous review.

Our intellectual capital is harnessed to process ideas for possible discoveries, and although a discovery means "to obtain sight or knowledge of for the first time," we dare to take the associated risk. To gain advantage, we've created a methodical approach in our quest for the "stone," the key to unlocking an understanding of the geological code ... a shared vision of our wildcat explorers ... young and old ... searching ... searching out of the sight of land ...

Exploration Business Units: 2004 Progress Report

Rosetta operates five Major Exploration Business Units and one Minor Unit. Rosetta's Units were created to deliver "optionality" and to reduce risk in what we admit is a high-risk, high-reward business plan.

At the outset, we focused our energies on those portions of the Canadian basin that were more lightly explored. This meant focusing on the deeper formations, such as the Swan Hills.

This exploration was our original foundation building block and is today contained in our Deep & Steep Exploration Business Unit. The Unit is named this way as the opportunities are "deep" (we define deep to be at least 3600 metres or 12,000 feet) and "steep", meaning they have significant reserves and deliverabilities when found. Each test well in the Deep & Steep Unit costs \$6-\$10 million to drill. This Unit carries significant upside and considerable business, licensing, drilling, operations, political and geological risks.

The risks of the Deep & Steep Unit are balanced by five lower cost Units (Khnum, California, Squid, Orlando and Mississippian) that have shallower objectives which can be tested for \$700,000 to \$2 million per well.

The New Play Type Units (California, Squid, and Orlando) are balanced by the better known conventional geology of Deep & Steep and the higher degree of well control in New Insight Units (Khnum and Mississippian).

The highly technical geophysical targets pursued in Deep & Steep, Mississippian, Squid and Orlando are balanced by the more pure geological exploration driven by the microscope in Khnum and California.

The long drilling lead times of Deep & Steep are balanced by the shorter licensing processes for the lower cost Exploration Business Units.

In order to keep our play concepts confidential during the land acquisition phase, Rosetta has given each play, and its related Exploration Business Unit, code names.

Each project within each Unit is measured and ranked against Rosetta's Exploration Principles:

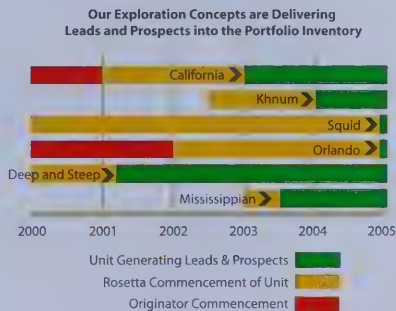
- | | |
|---------------------------------------|--|
| 1. Regional Knowledge Base - | Conforming to Rosetta's extensive and proprietary regional work |
| 2. Special Insight - | Germinating from an idea unique to Rosetta |
| 3. Singular Skills - | Rosetta possessing certain singular skills to implement better than others |
| 4. Special Technical Angle - | Rosetta possessing some technological edge |
| 5. Repeatability - | The idea, if successful, is repeatable in multiple Prospects |
| 6. Strategic Land - | Rosetta owns a significant land position |
| 7. Company Maker - | More than \$100 million potential means exceeding 100 BCF potential |
| 8. Aggressive Finding Metric - | A projected finding cost of less than \$1.50 boe |

And the majority will also have:

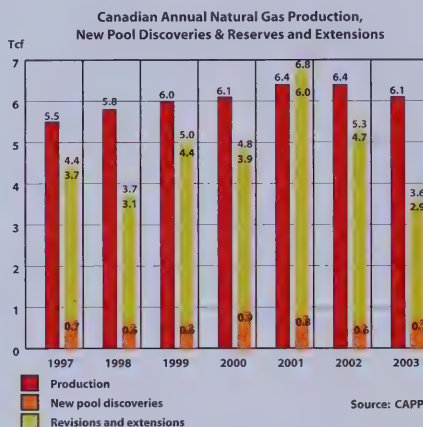
- | | |
|-------------------------------|--|
| 9. Low Drilling Cost - | A drilling cost per well of less than \$2 million, and |
| 10. Fast to Market - | A licensing process of less than forty days |



To meet all ten principles is a tall order. As you'd expect, it's taken considerable time and dedication to incubate such Units. The time required to begin to deliver technically viable, solid projects from within these Units is shown below.



In an Industry with Few New Pool Discoveries ...

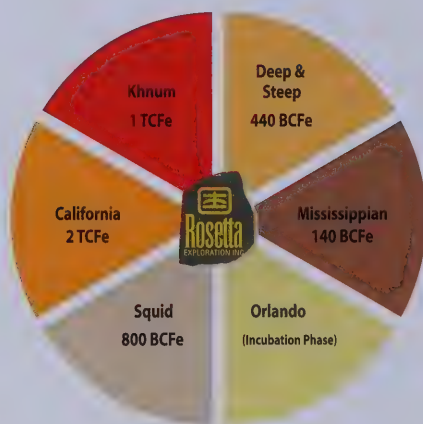


Canada's ability to discover new pools is diminishing.

In 2003, the entire oil and gas industry in Canada produced 6.1 TCF of gas and found only 3.6 TCF. Only 7/10ths of 1 TCF were discoveries from new pools.

... Our Exploration Business Units Create Prolific Potential

Rosetta Exploration Inc.
Exploration Business Unit Unrisked Resource Potential

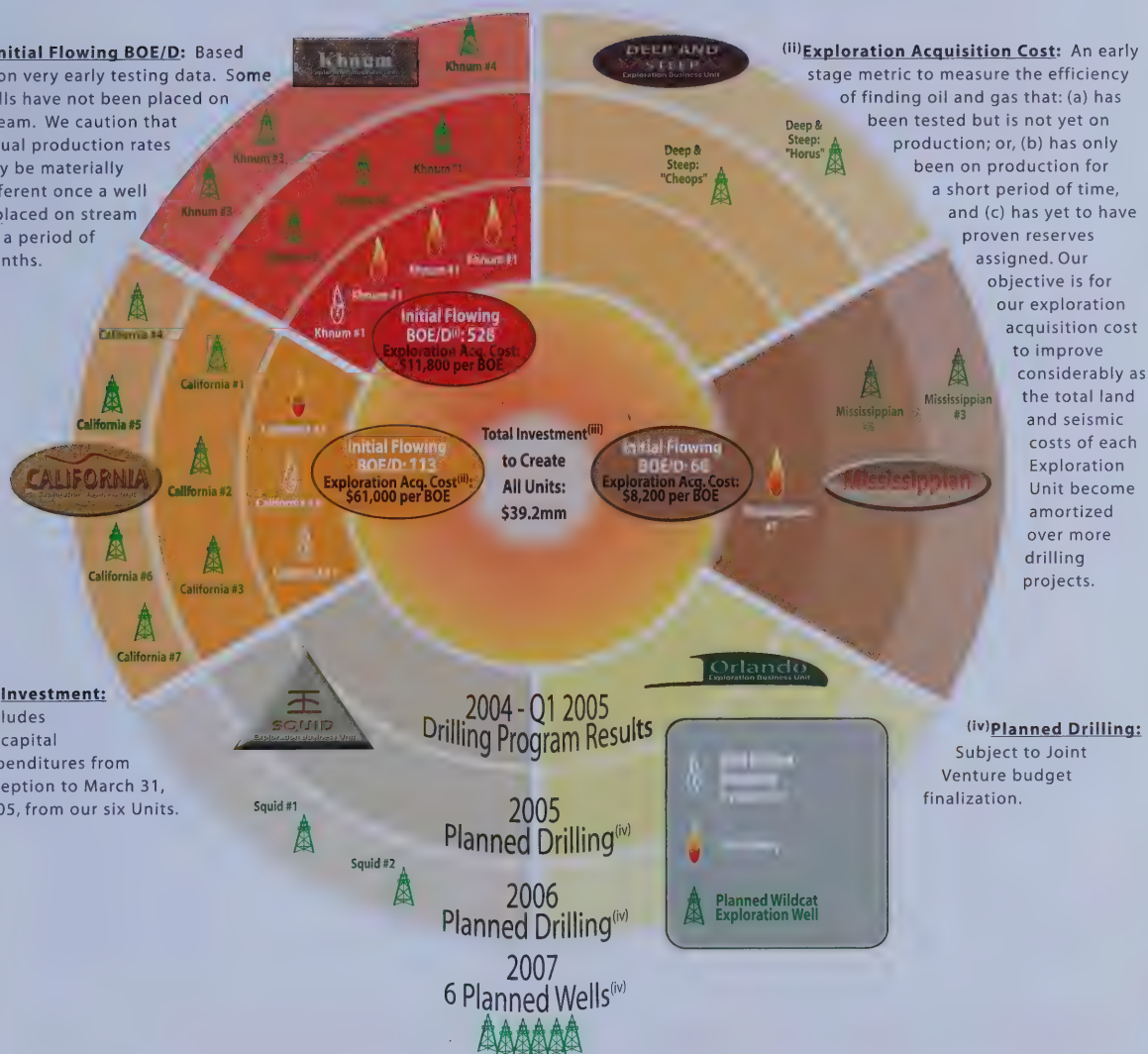


If any one of Rosetta's Major Exploration Business Units achieves a target zone success, Rosetta could be vaulted to a large company status (which we define to be \$100 million to \$1 billion). This is a high-risk, high-reward strategy.

... and that's ...

... Potential We're Just Starting to Tap

(i) Initial Flowing BOE/D: Based upon very early testing data. Some wells have not been placed on stream. We caution that actual production rates may be materially different once a well is placed on stream for a period of months.



We caution the reader that due to the timing of the drilling of these wells, these initial figures do not speak to reserves discovered or sustainable production rates. All figures should be considered very preliminary due to short test periods and limited production, and are only given to enable the reader to assess progress with the same metrics Management must use at this time. The initial production declines of the aforementioned wells may be steep. Sustainable production rates, declines and reserves cannot be estimated until all wells are connected and stabilized. For instance, three zones in two wells were connected in March. Two of these zones are producing at stabilized rates as anticipated; however for reasons as yet undetermined, one well that commenced production at 236 BOE per day has subsequently declined to 58 BOE per day after 300 hours of production. Pressure and further production data is being gathered to determine what can be done to improve long term production from the well. These figures are preliminary and may not be representative of near term cash flow potential and are not representative of significant reserve delineation.



Pushing the Boundaries to test a New Trapping Mechanism to Improve Upon Industry's Historic 6% Success Rate in our Target Formation

The jury is still out, but we've had some early success

Rosetta believes that if its insight is correct, it could increase the historical success rate substantially and create an extensive Khnum fairway

About Khnum

True Wildcat Exploration can bring with it a lot of dry holes. Unlocking the complex geology of the "Khnum" formation has been no exception—it's been explored for by industry with little success for over five decades. With 10,000 exploratory wells drilled, success rates increased from two per cent to six per cent. Geophysical interpretation has proven to be just as challenging, as the extremely subtle changes inherent to the Khnum play often make it effectively invisible to seismic exploration. The majority of Khnum successes have been found by accident, while drilling for a deeper target.

Years before the inception of Rosetta, Ross Clark was in the thick of Khnum exploration, acquiring in-depth knowledge of the play type. Over time, he formed an insight which he believed could unlock the geological enigma. Three dry holes brought an end to his exploration pursuit, but certainly not the model in his mind.

Interestingly, while Ross was working on understanding the formation, one of Rosetta's Advisory Board members

was building a regional concept which could be applied to the same formation, but the idea came from a different angle—a new approach to the trapping mechanism. An exploration discussion between the two men in Rosetta's offices illuminated an overlooked concept.

Both knew the trapping mechanism was very rare, but other examples had been found in Canada—and had trapped prolific accumulations of hydrocarbons. Could it be applied to the Khnum formation? This was the catalyst to begin the search once more, from the ground up, with a new set of parameters—and a lot more experience. Every data point was another piece to the puzzle.

Advancing the Concept

Since 2002, Ross and the Advisor studied 7,000 square miles with logs, drill cuttings and proprietary data. The core and cuttings study included 670 samples from 67 wells, 115 cores in the Khnum trend and 80 cores out of the Khnum trend. An external third party confirmed our rock work to date. We believe we may have deciphered a key insight for exploring for these elusive Khnum pools

using tools and a concept that is unique to Rosetta Exploration. Testing with the drillbit started during this year's winter drilling program.

This Unit's business plan calls for up to seven exploratory wells to fully test the target zone concept.

Early Drilling Results

Three economic discoveries were made during the course of our winter drilling program, although the primary zone we seek, so far, eludes us. We're currently building infrastructure to support these discoveries.

Our fourth well in the Khnum Prospect requires further testing and evaluation during 2005. Rosetta's working interest in the Khnum wells is 75%.

New Insight

Low Cost Unit

Dry Hole Tolerance*: 7 wells to test the target zone concept

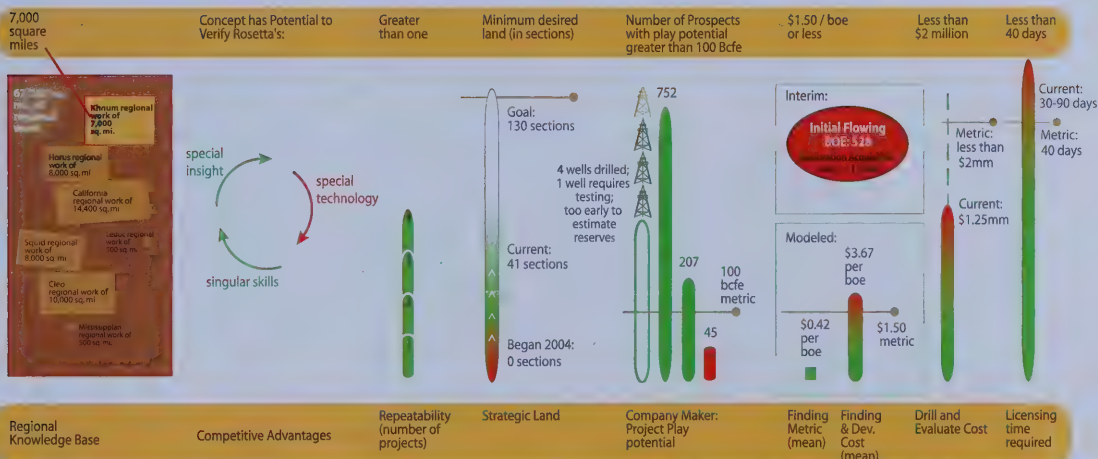
Keys to Our Exploration Process: It Begins with the Team

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. Khnum is a low cost Unit as it can be drilled and licensed at a lower cost than our deeper drilling initiatives. We drilled four exploration wells to test our "Khnum 1" Prospect. Three wells resulted in secondary zone discoveries that are or will be placed on-stream in 2005. The fourth well requires further testing and evaluation, which we're hoping to conduct in summer 2005. We have not, as of yet, proven our special insight, nor our singular skills, but early results are intriguing, and suggest we may be on the correct path. We started 2004 with no land on the Khnum projects. Since that time we've acquired 41 sections towards our target of 130 sections. Our drilling and evaluation costs were higher than anticipated due to substantial industry wide price hikes and timing issues with equipment availability. We hope our drill and evaluate costs will begin to decrease as we ramp up drilling activity in the area and economies of scale take hold. We cannot evaluate our modeled finding cost yet as we do not have established reserves, but our interim "exploration acquisition" cost metric shows \$11,800 per initial flowing boe. The Khnum licensing process ranged from 30-90 days, mostly due to the regulatory process for surface land acquisition and licensing.

Khnum Team

Rosetta Team Leader	Ross Clark
Team: Frank, Glenn, Mike, Ross, John	James J. Jones
Rosetta Team	Advisory Board Team
Ross Clark	Nor Hannon
Mike Crawford	Hugh Reid

See rosettaexploration.com for biographies



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS

"We designed our exploration program based upon what we've observed from worldwide exploration—meaning that most Prospects would have the need for a "dry hole tolerance". For sizable Prospects, particularly for New Play Types, more than one well would be required to make a discovery. We believe that the first well in a Prospect, if not successful, will likely provide the necessary data to enable a discovery in a subsequent well.



Pushing the Boundaries in Applying a Worldwide Analogue, Prolific in Many Hydrocarbon Basins Abroad, to Discover a New Play Type in Canada

Results are encouraging

The California play type has produced billions of barrels of oil and TCF's of gas in other basins, but has not been pursued in Canada until the initial tests of our Winter Program

About California

The possible application of the California play type in Canada was conceived by Jim Rennie. His concept was developed over the course of seven years while pursuing international exploration opportunities. After seven years of analogue study, including paying particular attention to the potential for source rock, trap, possible porosity and charge, Jim reached a preliminary conclusion that his new play concept had significant potential in Canada. Jim joint ventured with Rosetta to pursue his new concept as a geologic satellite to our wildcatting operations. Rosetta believes it has credible evidence that the California play type is present in western North America and is productive; however, no other company has, to Rosetta's knowledge, deliberately pursued the play.

Advancing the Concept

Rosetta began to augment Jim's work in 2001 with a multi-disciplinary approach including hydrodynamics, pressure work, rock analysis and geophysical support. This regional geological work comprised 14,400 square miles—and the results were very promising. In 2003, Rosetta entered the land acquisition phase of this project and has been tactically adding to its strategic land base ever since. In early 2004, Rosetta contacted and engaged world experts on three continents to review our work to date. These experts have all added significant value to the idea

and have endorsed Jim's and Rosetta's seminal thinking. In 2005, we push on to see if we can find evidence of the California play type across a much broader area. This regional work requires as many high quality data points as possible, across as large an area as possible. To this end, we continue to experiment with new regional scoping technologies. Our intensive analysis of cores continues, having looked at 160 cores to date. We recently shot 40 kilometres of 2D seismic to complement approximately 20,000 kilometres of 2D and twenty-two 3D data sets that we are in the process of reviewing. Fluids work is underway. Every data point adds another piece to the puzzle.

The California business plan calls for drilling 10 wildcat exploratory wells over seven projects to fully test this play concept.

Early Drilling Results

Our first drill test in the California New Play Type was drilled during our winter program and resulted in a new pool discovery. Very preliminary testing revealed initial flow rates of up to 800 boe/d, although sustainable production is expected to be much lower. Being a new pool discovery, the well is subject to possible flow rate restrictions. Our early modeling anticipates net initial production to Rosetta of 113 boe/d from

this well. Rosetta's working interest in the well is 69%. Due to access restrictions, the well will be tied in during the summer or fall of 2005.

Two fundamental hypotheses of the California New Play Type concept were verified with the drilling of the well. The California risk profile is beginning to be reduced based upon our evaluation of the well.

Being a New Play Type, a secondary objective of the first test well was to experiment with drilling methods and technologies to establish optimum drilling procedures for the drilling of subsequent wells in the California play fairway. We did learn a great deal with this practical test and our knowledge base has been documented internally.

Our second and third tests of the California New Play Type concept were fighting the clock with unseasonably warm winter temperatures. Evaluations may continue when weather permits.

New Play Type

Low Cost Unit

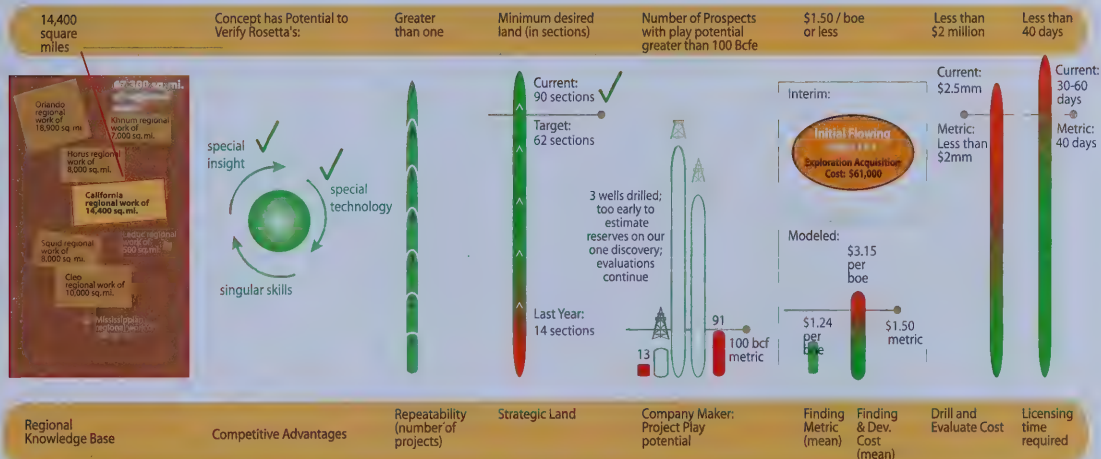
Dry Hole Tolerance*: 10 wells to test the concept

Keys to Our Exploration Process: It Begins with the Team

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. California is a low cost Unit as it can be drilled and licensed at a lower cost than our deeper drilling initiatives. We drilled three wells, comprising three Prospects, which resulted in one discovery to this point. Drilling results from one of the wells indicates that our special insight appears valid, and optimum drilling methods were established. We've surpassed the minimum targeted level of strategic landholdings for this concept. Our drilling and evaluation costs were higher than anticipated due to substantial industry wide price hikes and unforeseen changes in our initial plans due to weather and changes in our program. Our per well drill and evaluate costs will hopefully begin to decrease as we ramp up drilling activity in the area and economies of scale take hold. We cannot currently estimate our modeled finding cost as we do not have established reserves, but our interim "exploration acquisition" cost metric shows \$61,000 per initial flowing boe. The California licensing process ranged from 30-60 days, mostly due to the regulatory process for surface land acquisition and licensing.

California Team

Rosetta Team Leader	Mike Heule
Rosetta Team	Advisory Board Team
Trish Lavery	Allan Shepard
Paul Pedersen	Hugh Reid
Ross Clark	
Derek Gillespie	
See rosettaexploration.com for biographies	



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS

"We designed our exploration program based upon what we've observed from worldwide exploration—meaning that most Prospects would have the need for a "dry hole tolerance". For sizable Prospects, particularly for New Play Types, more than one well would be required to make a discovery. We believe that the first well in a Prospect, if not successful, will likely provide the necessary data to enable a discovery in a subsequent well.



Pushing the Boundaries to Find New Reef Trends in Basins where Conventional Industry Wisdom would Conclude they Couldn't Exist

We had to convince ourselves first, then our joint venture partner ... preliminary investigation continues to be encouraging

A lifetime quest to prove the existence of Reef trends in basins where they should not exist has been put to continued rigorous scrutiny in 2004. Geophysical advancement was made and our land position was bolstered significantly

About Squid

Grant Pitcher has made a 48 year career of questioning the status quo because as he puts it, "we only see what we know." He's seen how sound reasoning can be fooled by a dry hole. But he's also seen how changing one's assumptions can create new opportunities. Grant discovered the 1.5 TCF Strachan D3A field this way.

Grant has seen how an accidental discovery can turn into a successful trend of discoveries—a trend which should not have been there based upon the then current geological thinking—but a trend that was there nonetheless. He's seen how the facts—how "what we know to be true"—has a way of changing with each successive discovery.

The Squid concept was born 40 years ago with Grant's belief that certain reefs exist in unconventional areas of North America, where industry convention would conclude they could not exist. With his unconventional view of what reefs look like, how they grew and how they were deposited over the ages, he set out to establish a set of reef proximity indicators. Over time, his investigations have yielded geological and geophysical "rules of thumb" as to when a prospector was getting closer (or further) from a reef. At Rosetta, using these indicators, a trend of prospectivity emerged.

Advancing the Concept

To test the validity of the concept for the Squid New Play Type, Rosetta set about on an 8,000 square mile regional study. These learnings were integrated with outcrop knowledge from analogues in Alberta, China, Australia and Europe.

To complete and test such a large and controversial study, three independent teams were created.

Team One's responsibility was to examine the conventional reef model and its applicability to the dynamics of the Squid target area.

Team Two's role was to investigate the influence that structure has on controlling the location of potential reefs.

Team Three's mission was to test the validity of proximity indicators. This work took four calendar years to complete and comprised thousands of hours of analysis, hundreds of cross sections, 40,000 geochemistry tests, magnetics, sample and core analysis of 82 wells, proximity indicator measurements, field trips to remote locations and sophisticated statistical work to test and advance the notion of Grant's reef proximity indicators.

When the work of the independent geological, geophysical, and geochemical observations were compiled, the lines of evidence converged on a broad anomalous

area comprising 700 square miles. If correct, this work suggests this area could contain significant reef features.

In 2004, a lengthy review of this play concept was presented to our joint venture partner, Anadarko. The Squid play was greeted with enthusiasm and a strong desire to work with Rosetta in advancing our understanding of this new possible trend. Anadarko is sharing its in-depth exploration expertise on this endeavour.

Focused sample analysis and geophysical review of 1,000 miles of regional 2D seismic are on-going and has been encouraging enough to warrant the purchase of more seismic. Every data point is another piece to the puzzle.

The Squid Unit's business plan calls for the drilling of up to 5 wildcat exploratory wells to fully test the play concept.

New Play Type

Low / High Cost Unit

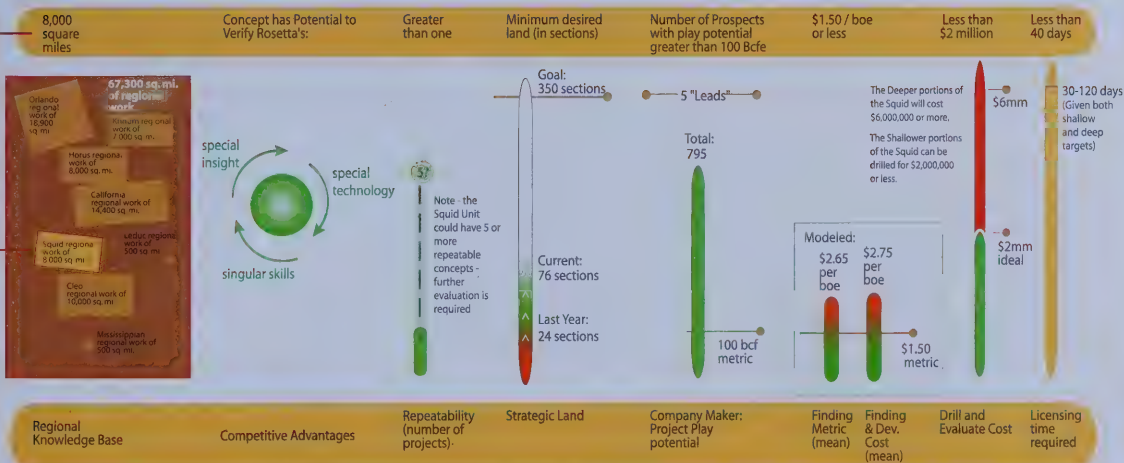
Dry Hole Tolerance*: up to 5 wells to test the concept

Keys to Our Exploration Process - It Begins with the Team

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. Squid is a regional concept that has a high cost exploration element as well as a low cost cost exploration element. The Unit's deeper projects can be drilled for an estimated \$6 million and its shallower projects can be drilled for \$2 million or less. No drilling has commenced on the Squid concept as the team is still at the "Lead Generation" stage of exploration. We grew our strategic land position and went from owning interests in 24 sections of land to holding interests in 76 sections of land. We'll work to continue building our land position for our first, hoped for, Squid test in winter 2006.

Squid Team

Rosetta Team Leader	Jin Malcolm
Rosetta Team	Advisory Board Team
Paul Pedersen	Allan Shepard
Ross Clark	Bill Ayrton
Keith Edwards	
See rosettaexploration.com for biographies	



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS

"We designed our exploration program based upon what we've observed from worldwide exploration—meaning that most Prospects would have the need for a "dry hole tolerance." For sizable Prospects, particularly for New Play Types, more than one well would be required to make a discovery. We believe that the first well in a Prospect, if not successful, will likely provide the necessary data to enable a discovery in a subsequent well.



Pushing the Boundaries to Find 100+ BCF Single Pool Targets in an Industry that has Only Found 15 such Targets in the Last 14 Years

We've successfully partnered two high-risk / high-reward Prospects within our Deep and Steep Unit so far. We're hoping to test, with a drilling partner, our third and fourth 100+ BCF Prospects in 2005

Will Industry's Appetite for Drilling Deep, Single Pool Targets Return after Shell's Prolific Tay River Discovery?

We're Ready

About Deep & Steep

Our Deep & Steep Exploration Business Unit was formed for the purposes of deep, wildcat exploration to discover 100+ BCF accumulations in the Western Canadian Sedimentary Basin.

Rosetta's Deep & Steep focus area contains approximately 29,000 square miles in which the Beaverhill Lake Group and Swan Hills formations are believed to be prospective.

Over the past 56 years, the oil and gas exploration industry has discovered pools containing approximately 15 TCF of proven gas reserves in the Swan Hills in this area, but prolific discoveries have been few and far between.

For instance, the largest single pool, Kaybob South BHL A, (3.682 TCF of proven reserves) was discovered in 1961. Surprisingly, the second largest pool, Caroline BHL A pool (2.297 TCF of proven reserves), was discovered 25 years later in 1986. Rod Morris, Rosetta's Deep & Steep Value Creation Team Leader, was involved in putting together Dome Petroleum's interest in the Caroline play, which was subsequently sold to Shell.

As with all new exploration plays, there are cycles of discovery and periods of disappointment after companies who were not involved in the initial discovery rush in and drill a lot of dry holes.

By the late 1990's, the majors put much of their deeper Devonian exploration on hold, while they re-gearred for the shallower resource plays and pool optimization opportunities they had.

Wishing to seize on this opportunity, Rosetta set out to focus on wildcat exploration for high impact plays using established geological models.

Based upon regional knowledge of the Rosetta Team, the Swan Hills, Leduc and Thrusted Mississippian were identified as targets that still had the potential for large pools to be discovered. Typically these plays are located in the deeper section of the basin, where there are numerous townships (36 square miles each) that have never had a deep well drilled within them.

Area of Interest and Historical Discoveries

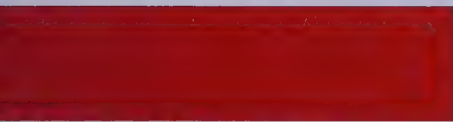
All wells of this depth are technically challenging. Wells greater than 3600 metres (12,000 feet), tend to be sour and

drilling costs range from \$6 million to \$12 million. They are also characterized by low success rates but prolific potential. There's a limited number of these wells drilled by the Canadian industry annually, but a primary target discovery in this Unit has the potential to be a company making event.

For example, the Caroline field, discovered in 1986, came into full production in 1994, at an initial average production rate per well of 22 MMCF/D. The combined initial production for the 17 wells in the pool was in excess of 370 MMCF/D of raw gas. The components of these hydrocarbons were approximately 167 MMCF/D of natural gas and 46,000 BBLS/D of natural gas liquids. Today, eleven years later, Caroline is still producing 292 MMCF/D of raw gas. This is the kind of target we're searching for—and this is why we push on.

High Cost Unit Requires a Partner for Each Well

A founding principle of our Deep & Steep Unit was to secure a "global" drilling partner to participate in drilling an entire portfolio of high impact wells.



Over time, we've found that companies with the size of resources required to participate in such wells are generally reluctant to take on the associated high capital costs given the risk profile.

The oil and gas industry has moved from a wildcat exploration model to an exploitation model (that is, drilling development wells in the vicinity of known producing areas—a model which delivers small reserves per well but high success rates and highly economic returns given high gas prices).

Despite the more conservative nature of today's industry, Rosetta has successfully attracted industry majors to participate in the drilling of two deep wells to date.

The first deep well Rosetta drilled was the Strachan 5-17 Swan Hills test in 2002, with Murphy Oil. The second well was the Crossfield 9-22 Swan Hills test drilled in 2003 (and early 2004) with Petro-Canada.

Both tests were unsuccessful in their primary target zones but, the high reward potential justified the high risk we jointly assumed. The learnings gained are assisting us in generating other Deep & Steep Prospects.

Our reputation for drilling deep, sour gas wells safely and efficiently has been established in the process.

Industry conditions and our "target market" of potential drilling partners has changed from when we started Rosetta, and that market hasn't come back yet.

However, we believe that change may be in the air given Shell's recent 800 BCF Tay River discovery, near Rocky Mountain House. We salute and hail them. Job well done!

After completing due diligence of our Deep & Steep Prospects, Anadarko has agreed to participate in a portion of the drilling costs on several of our Deep & Steep Prospects. Rosetta will seek one or more partners to participate in the remaining portion of the drilling costs for these Prospects.

DEEP AND STEEP

Exploration Business Unit

Continued

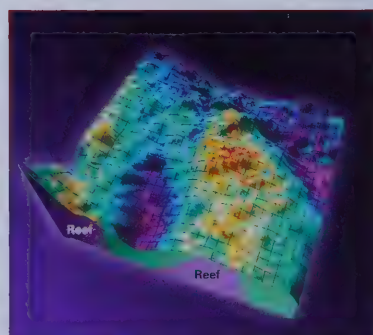
Our Cheops and Horus Prospects are currently at the top of our list for possible drilling in late 2005 and early 2006. Each idea can be tested with a single wildcat exploration well.

Cheops

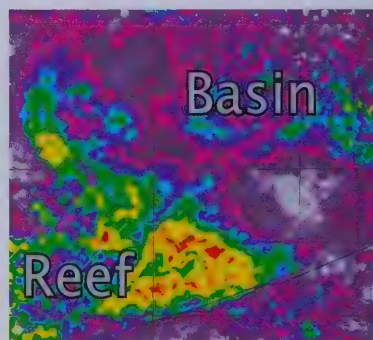
Is a low relief partial Leduc build up identified on a larger 3D seismic program that Rosetta has in the Strachan area. Analogues to the play type are found at Cheddarville, approximately 12 miles southeast, where several low relief Leduc pinnacles are currently producing. The Prospect is two miles from tie-in to processing facilities and is expected to be a low H_2S dry gas accumulation. The Prospect could be as large as 124 BCF. Cheops is ready to be licensed with an anticipated spud date in Q4, 2005.

Horus

Is a classic Swan Hills porous carbonate bank edge well defined by 3D seismic and situated between an off-reef basinal well and a back-reef lagoonal well. The seismic shows the porous reef edge very clearly. The Prospect is in the transitional limestone to dolostone trend of the Swan Hills. Analogue pools are the Simonette A and B Pools that collectively have 917 BCF of gas in place. A significant gas show was encountered in the offsetting basinal section in a Shell well that is thought to be very close to the porous margin. This is a strong indication that the system we're looking to is porous, hydrocarbon charged and ultimately sealed, which is exactly what our geological model predicts. The Horus Prospect is deep but access and environmental issues are minimal. We define this play type as a complex Diagenetic/ Structural / Stratigraphic trap, similar to the analogues of Simonette and Rosevear. Horus could have a potential prize of up to 125 BCF. The Prospect is licensed and ready to drill—with a hoped for spud date in Q4, 2005 or Q1, 2006.



Cheops is a Leduc build-up that is well defined by 3D seismic, supporting pressure and hydrodynamic evidence, and analogues and successful Leduc discoveries within 20 miles of our location. We believe that the Prospect could be as large as 124 BCF.



Horus is a classic Swan Hills porous carbonate bank edge, well defined by 3D seismic and situated between an off-reef basinal well and back-reef lagoonal well. The seismic shows the porous reef edge very clearly. We believe that the Prospect could be as large as 125 BCF.

Conventional Insight
High Cost Unit
Dry Hole Tolerance: 1 well per Prospect

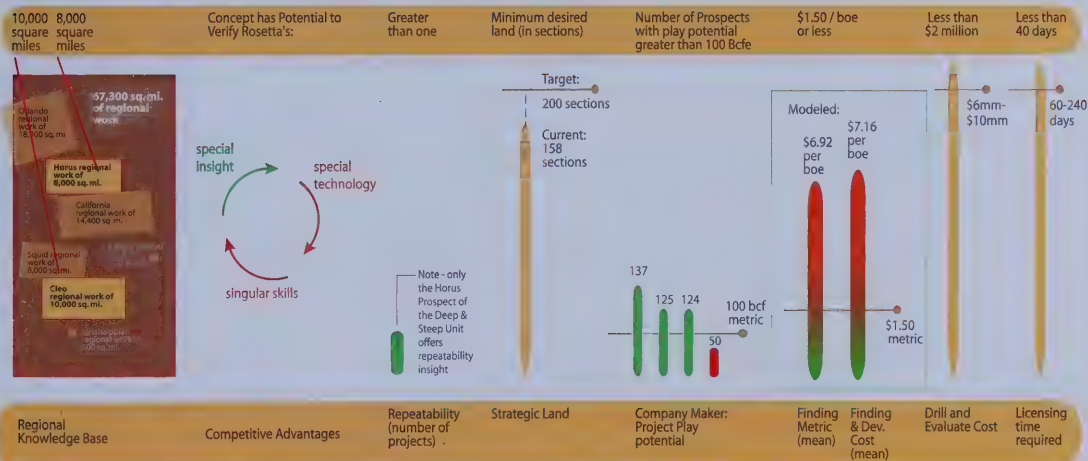
Keys to Our Exploration Process - It Begins with the Team

The Deep & Steep business plan currently calls for the testing of four deep Prospects and Leads: Cheops, Horus, Ra-Sun and Alexandria.

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. Deep & Steep is considered to be a high cost Unit because its wells cost \$6-\$10 million to drill. No drilling was initiated on the Deep & Steep group of Prospects in 2004. We'll work to continue building our land position for anticipated drilling on the Cheops and Horus Prospects in Q4, 2005 and Q1, 2006.

Deep & Steep Team

Rosetta Team Leaders	Ross Clark, Rod Morris
Rosetta Team	Advisory Board Team
Keith Edwards	Hugh Reid
Caush Xhufi	Wor Hannon
Paul Pedersen	
See rosettaexploration.com for biographies	



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS



Pushing the Boundaries to Test if there Are Significant Hydrocarbon Traps other than the Conventional Subcrop and Thrust Plays

The latest results have been encouraging

Our 10-28 well was successful, and we're pushing ahead in 2005 to test the concept a second time

About Mississippian / Advancing the Concept

In 2003, James Muraro and Paul Pedersen conducted a 500 square mile regional study following up an insightful idea for a special category of Mississippian trap that Rosetta first had in 2001. James was intrigued by the concept and he believed that it could be expanded. His work entailed reviewing logs, cores, samples, drill stem tests, water salinities, and 100 square miles of 3D seismic.

Drilling Results

Strachan 10-28 was drilled in February, 2004 in an attempt to test the Mississippian trapping concept. The well was funded by third parties and led by Husky.

The well resulted in a Mississippian discovery, as predicted. To help accelerate the on-stream process, Rosetta operated the tie-in and the well was brought on stream in September, 2004. Husky currently operates the 10-28 well.

The 10-28 discovery started production at a rate of 2.4 million cubic feet per day. Rosetta's interest in the well is 13.5% before payout and 28.5% after payout. Payout is expected to occur in 2006, depending upon gas prices and flow rates.

In 2005, we are planning a follow-up well based upon the new knowledge we've confirmed with this discovery.

An extensive review of 3D seismic shows evidence that this play is repeatable. If the next well also proves a success, we'll have considerable confidence in an exploration model that could stretch over an area of 25 townships. Our next test well is licensed and ready to drill.

This Unit's business plan calls for the drilling of four exploratory wells, including the one drilled in 2004, to fully evaluate the play concept.

New Insight

Medium Cost Unit

Dry Hole Tolerance*: 4 wells to test the concept

Keys to Our Exploration Process - It Begins with the Team

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. The Unit is considered to be "medium cost" as its Prospects cost approximately \$3 million to drill, versus the \$6 to \$12 million cost per well in our deepest drilling initiatives. Mississippian is a Minor Exploration Business Unit in that its Prospects are not individually 100 BCF in size. Our initial discovery supports our special insight and therefore we'll continue to build a strategic land position going forward. Our initial "exploration acquisition" cost is \$8,200 per flowing boe.

Mississippian Team

Rosetta Team Leader Ross Clark

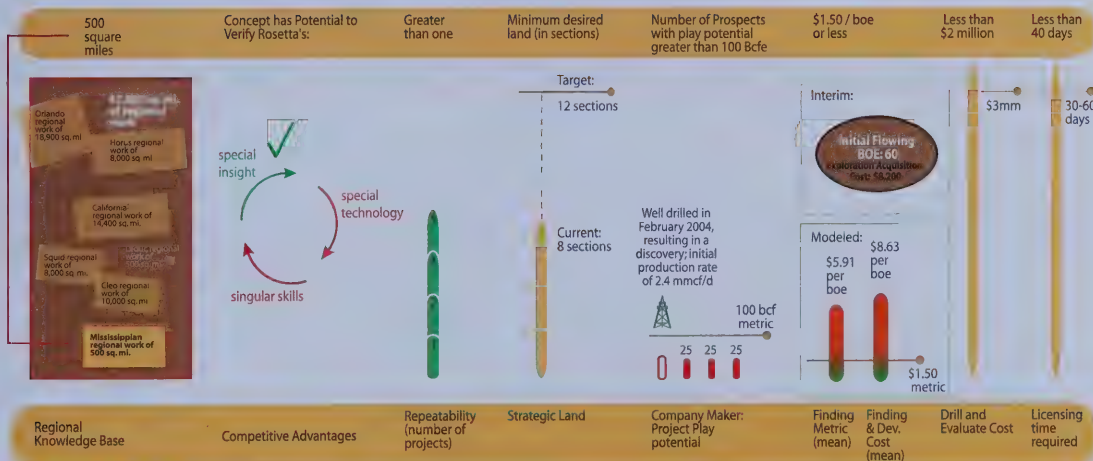
Paul Pedersen

Rosetta Team

Paul Pedersen

Ross Clark

See rosettaexploration.com for biographies



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS

"We designed our exploration program based upon what we've observed from worldwide exploration—meaning that most Prospects would have the need for a "dry hole tolerance." For sizable Prospects, particularly for New Play Types, more than one well would be required to make a discovery. We believe that the first well in a Prospect, if not successful, will likely provide the necessary data to enable a discovery in a subsequent well.

The logo for the Orlando Exploration Business Unit features the word "Orlando" in a large, bold, sans-serif font. Below it, "Exploration Business Unit" is written in a smaller, all-caps, sans-serif font. The text is white and set against a dark, curved background that resembles a stylized banner or a piece of rock.

Pushing the Boundaries to Extend the Prolific Swan Hills Play—to Where Convention Says it Shouldn't Exist

**We did not test Orlando with the drillbit in 2004,
but we did advance the concept geotechnically and
establish a small land base to build upon**

**After nine years of regional study, three within Rosetta,
multiple anomalies have been identified. We hope to high
grade these towards drilling our first exploratory
test in the Unit in 2007**

About Orlando

Like the Khnum and California Business Units, the roots of the Orlando Unit had taken hold years before the creation of Rosetta Exploration.

While on assignment in 1996, Oene Miedema saw evidence that the conventional Swan Hills model did not support all the known data and was misunderstood.

As his work progressed, Oene developed a radical new concept about the origin and nature of oil and gas accumulations in the Swan Hills and Slave Point.

To test his new hypothesis, Oene believed a new set of investigative parameters would be required. The task was daunting—he would need to establish his own database for all the wells in Western Canada that had penetrated the top of the underlying Elk Point Group. Since 1999, Oene has investigated 20,000 of these 30,000 wells drilled to the Elk Point. He created over 100 cross sections to set up his regional overview.

Oene has consulted to Rosetta as a geologic satellite since June of 2002 and in this role has continued detailing and expanding his database—with Rosetta geophysicist Caush Xhufi working closely by his side. The results of the work are available only to Rosetta under the existing agreement.

Advancing the Concept

In late 2002, Oene identified a 15,000 square mile area that he wished to explore using his new theory of the Swan Hills formation.

Rosetta hired an international group possessing a remote sensing technology that had been decades in the making. By late 2003, the 15,000 square mile regional study (proprietary to Rosetta) was complete.

Our confidence in the remote sensing study grew as the results of the study were highly correlated to known production (a correlation coefficient of 0.65). Furthermore, the international scientists, working independently, predicted hydrocarbon accumulations in the same (unconventional)

geography that Oene had predicted occurrences.

In 2003, Rosetta purchased a 2,500 mile regional 2D seismic database which is being utilized as a scoping tool (scoping helps us pinpoint areas where more costly technologies should be deployed). The 2D data was integrated into our regional geological interpretation during 2004. Our regional study on this concept has grown to 18,900 square miles.

We push ahead to see if these anomalies can be converted into Prospects that are ready for drilling in 2007.

New Play Type

Low Cost Unit

Dry Hole Tolerance: currently undetermined

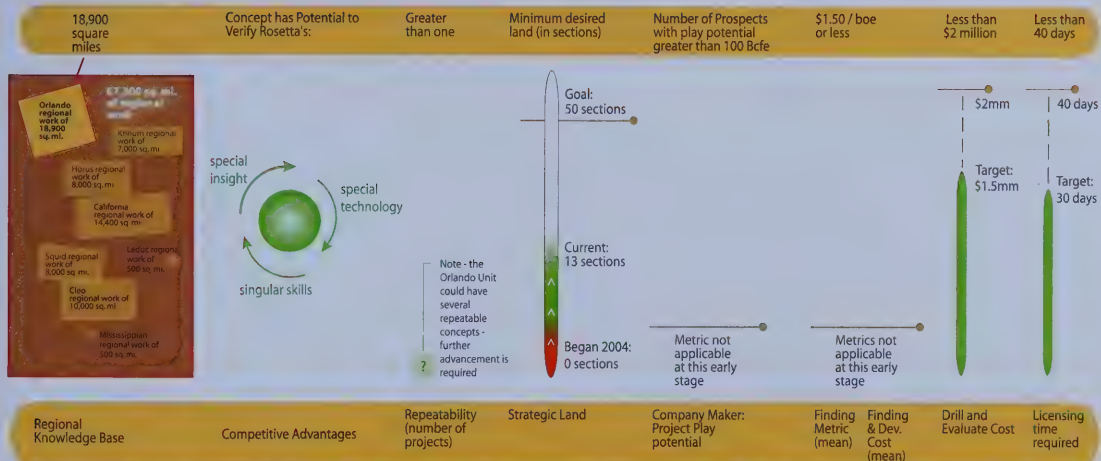
Keys to Our Exploration Process - It Begins with the Team

The keys to our exploration process for this Unit are shown in the 10 Exploration Principles set forth at the bottom of this page. Orlando is a low cost Unit as it can be drilled and licensed at a lower cost than our deeper drilling initiatives. In 2004, we acquired 13 sections of land in this Exploration Unit. As Orlando is in the formative stages of development, we do not assess the possible size of Prospects nor the associated finding costs. This Exploration Unit is in "Prospect Generation" mode; no drilling is currently anticipated in 2005/06.

Orlando Team

Rosetta Team Leader	Jim Malcolm
Team	Land Managers
Rosetta Team	Advisory Board Team
Caush Xhufi	Nor Hannon

See rosettaexploration.com for biographies



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS



Our Exploration Business Units

Financial and Operations Information

Tables: Reserves, Land, Drilling [\[page 36\]](#)

Metrics [\[page 38\]](#)

MD&A [\[page 39\]](#)

Audited Financial Statements [\[page 48\]](#)

Rosetta Exploration Inc.

Reserves Summary

RESERVES

January 1, 2005

	RESERVES SUMMARY											
	Economically Recoverable Remaining Reserves Gross 100% Lease				COMPANY INTEREST							
					Company Gross				Company Net			
	Light & Medium Oil	Gas ⁽¹⁾	NGL	Sulphur	Light & Medium Oil	Gas ⁽¹⁾	NGL	Sulphur	Light & Medium Oil	Gas ⁽¹⁾	NGL	Sulphur
	MSTB	MMCF	MSTB	MLT	MSTB	MMCF	MSTB	MLT	MSTB	MMCF	MSTB	MLT
Proven Producing	-	2,215	17.1	21.4	-	473	2.6	6.0	-	373	2.1	5.0
Proven Developed (Non-Producing)	-	657	15.8	-	-	443	11.6	-	-	343	8.1	-
Total Proven	-	2,872	32.9	21.4	-	916	14.2	6.0	-	716	10.2	5.0
Probable	-	2,093	29.0	6.3	-	1,106	17.3	1.8	-	885	12.0	1.4
Total Proven Plus Probable	-	4,965	61.9	27.7	-	2,022	31.5	7.8	-	1,581	22.2	6.4
Possible	34.9	33	-	-	24.1	23	-	-	22.5	21	-	-
Total Proven Plus Probable Plus Possible	34.9	4,998	61.9	27.7	24.1	2,045	31.5	7.8	22.5	1,602	22.2	6.4

Note (1): Includes Non-associated gas

Company gross reserves as used herein means those reserves accruing to the Company after deduction of all outside working interests but before deduction of overriding and lessor royalties and before Crown royalties.

Net reserves as used herein means those reserves accruing to the Company after deduction of all outside working interests, overriding and lessor royalties and Crown royalties.

The properties were evaluated by Reliance Engineering Group Ltd. in accordance with the following National Instrument 51-101 definitions.

I Proved Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

II Probable Reserves

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

III Possible Reserves

Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. It is unlikely that the actual remaining quantities recovered will exceed the sum of the estimated proved plus probable plus possible reserves.

Other criteria that must also be met for the categorization of reserves are provided in Section 5.5 of the COGE Handbook.

Each of the reserves categories (proved, probable, and possible) may be divided into developed or undeveloped categories.

Developed Reserves

Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

Developed Producing Reserves

Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

Developed Non-Producing Reserves

Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

Levels of Certainty for Reported Reserves

The qualitative certainty levels contained in the definitions in Sections I, II and III are applicable to individual reserves entities, which refers to the lowest level at which reserves estimates are made, and to reported reserves, which refers to the highest level sum of individual entity estimates for which reserve estimates are made.

Reported total reserves estimated by deterministic or probabilistic methods, whether comprised of a single reserves entity or an aggregate estimate for multiple entities, should target the following level of certainty under a specific set of economic conditions:

- There is a 90 probability that at least the estimated proved reserves will be recovered.
- There is a 50 probability that at least the sum of the estimated proved reserves plus probable reserves will be recovered.
- There is a 10 probability that at least the sum of the estimated proved reserves plus probable reserves plus possible reserves will be recovered.

A quantitative measure of the probability associated with a reserves estimate is generated only when a probabilistic estimate is conducted. The majority of reserves estimates will be performed using deterministic methods that do not provide a quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in Section 5.5.3 of the COGE Handbook. Whether deterministic or probabilistic methods are used, evaluators are expressing their professional judgement as to what are reasonable estimates.

The Company's Statement of Reserves Data and Other Oil and Gas Information for the year ended December 31, 2004 is available on SEDAR, at www.sedar.com.

Land Summary

TOTAL⁽¹⁾ LANDHOLDINGS: Business Units
At December 31st, 2004

Business Unit	Gross acres	Net acres
Deep & Steep	102,748	78,760
Mississippian	2,560	1,237
Squid	48,560	46,480
Orlando	8,658	8,658
Khnum	24,000	20,480
California	32,960	29,255
Other	8,062	2,271
Total	227,548	187,140

⁽¹⁾Total refers to the sum of undeveloped and developed lands.
Does not include option lands nor unearned farm-in lands.

Drilling Summary

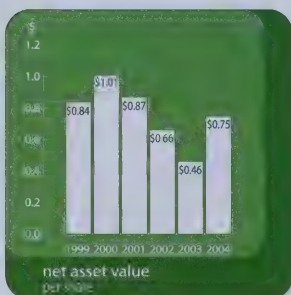
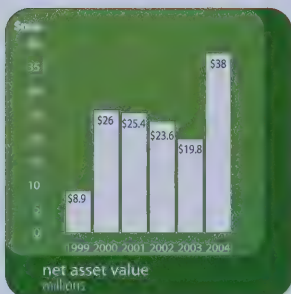
WELLS DRILLED: Business Units
From January 1st, 2004 to December 31st, 2004

Business Unit	GROSS		NET	
	Gas / Oil	D&A	Gas / Oil	D&A
Mississippian	1	0	0.135	0
Squid	0	0	0	0
Orlando	0	0	0	0
Khnum	2	0	1.5	0
California	1	0	0.69	0
Total	4	0	2.325	0

Note: Deep & Steep - "Crossfield 9-22" (D&A in the Swan Hills) was considered to be a 2003 well.

Metrics

December 31, 2004



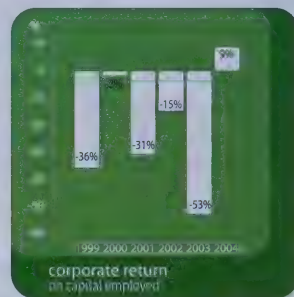
Our Business Plan is Built to Achieve the Following Metrics of Success:

1. Generate a portfolio of twelve 100 Bcf drilling prospects
(or twelve prospects with each greater than or equal to 17 mmboe of recoverable reserves)
2. An annual 21% rate of return on capital employed
3. Discover reserves with finding costs of under \$1.50 per boe
(or \$0.25 per mcf)
4. Make a \$1.25 per share investment worth \$10 per share

2004 Metrics Review

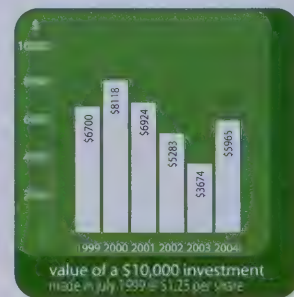
With respect to generating a portfolio of 12 Prospects, Rosetta is planning to test 11 Prospects and 13 Leads within its 33 well drilling program. Rosetta's other three metrics are designed to report on its business plan of exploration and monetization—and until such time as we have a major discovery, the results will continue to be less than targeted.

Such is the case with our return on capital employed metric. Rosetta ended the year in positive earnings territory, with a 9% return, but this did not stem from discoveries. Most of the Company's profit was attributable to the payment we received pursuant to our joint venture agreement, the collection of back revenue relating to a non core area well and the monetization of the Strachan 5-17 and 1-21 wells. In order to achieve a 21% return on capital employed, Rosetta will need to discover significant reserves and subsequently produce or monetize them.



Based upon our limited reserves evaluated at year end, our finding cost is \$19 per boe (proven plus probable basis). We believe our finding costs will decline over time, as our historical costs become spread out over more wells and economies of scale begin to take hold. Achieving our \$1.50 per boe metric will require a large discovery, which is consistent with the Company's business plan.

A notional \$10,000 investment in Rosetta has become \$5,965; an increase over last year's \$3,674 figure. This is a net asset value measurement and assumes the investment was made when new management invested their funds in July 1999, at \$1.25 per share. This calculation is done on a pre-tax liquidation basis and includes only land, geophysics, proven reserves and working capital. A large portion of net asset value is working capital, which declines with investment. *This does not reflect any potential value for Rosetta's significant Prospects or future drilling programs.*



Rosetta Exploration Inc.

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) is a review of Rosetta's 2004 financial results and should be read in conjunction with the audited consolidated financial statements and related notes for the years ended December 31, 2004 and 2003. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise noted. All references to "Rosetta" or the "Company" refer to Rosetta Exploration Inc.

In the MD&A, reserves and production are commonly stated in barrels of oil equivalent (boe) on the basis that six thousand cubic feet of natural gas is equivalent to one barrel of oil (boe). Boe's may be misleading particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas equal to one barrel of oil is based on an energy equivalent conversion method primarily applicable to the burner tip and does not represent a value equivalent at the wellhead.

Forward Looking Statements – This document contains statements that are forward looking, such as those relating to results of operations and financial condition, capital spending, financing sources, commodity prices, costs of production and the magnitude of oil and natural gas reserves. By their nature, forward looking statements are subject to numerous risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, actual results may differ materially from those predicted. The forward looking statements contained in this MD&A are as of April 14, 2005 and are subject to change after this date. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward looking statements. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

Non-GAAP Measurements – This MD&A contains the term cash flow from operations. This term should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income as determined in accordance with Canadian GAAP as an indicator of the Company's performance. The Company's determination of cash flow from operations may not be comparable to that reported by other companies, especially those in other industries. Cash flow from operations represents net earnings adjusted for non-cash items including depletion and depreciation, accretion and stock based compensation. The Company evaluates its performance based on earnings and cash flow from operations. The Company considers cash flow from operations a key measure that demonstrates the Company's ability to generate the cash flow necessary to fund future growth through capital investment.

Rosetta Exploration Inc. Management's Discussion and Analysis

Fourth Quarter 2004 Results

Operations

Cash flow from operations in the fourth quarter of 2004 remained negative with production, general and administrative and interest expenses exceeding oil and gas and interest revenues.

Natural gas and liquids revenues totaled \$496,877 for the three months ended December 31, 2004. Daily production volumes averaged 788 mcf/day and 12 bbls/day at average prices of \$5.94 per mcf and \$52.73 per barrel. The increase in revenues in the fourth quarter from previous quarters was a combined result of the Strachan 10-28 well being on production for the last four months of the year, the Smokey 9-9 well (royalty interest) being on production for the last quarter and the continued production from the Windfall 16-35 well. Comparatively, the fourth quarter of 2003 had revenues of \$250,623, daily production of 387 mcf/day and 4 bbls/day with average prices of \$6.23 per mcf and \$33.77 per barrel.

Royalties for the fourth quarter were \$64,986 or 13% of revenues. This decrease in rate from previous quarters was a result of the Strachan 10-28 well being on crown royalty holiday and the receipt of the gross overriding royalty from the Smokey well. Operating expenses on a unit basis remained consistent with the prior comparative periods.

General and administrative expenses increased slightly in the fourth quarter from prior quarters as a result of additional compensation expenses at year end and an increase for certain annual expenditures such as the audit and reserve report.

The Company expended \$5.0 million on its capital program during the fourth quarter of 2004. Approximately \$4.3 million was spent on drilling, completing and equipping wells; \$0.6 million was spent on land purchases, with the balance spent on seismic and office equipment. Proceeds from dispositions in the final quarter were \$152,000, which was derived from the sale of copies of proprietary seismic and certain undeveloped parcels of land.

During the fourth quarter of 2004, the Company signed a joint venture relationship agreement with Anadarko Canada Resources, a wholly owned partnership of a major US based energy exploration corporation. Under the terms of the agreement, the Company will receive a total of \$11 million, comprised of a \$5.5 million cash payment received in October, 2004, a \$3.5 million cash payment received in January, 2005 and a credit of \$2.0 million towards purchases of land and seismic from Anadarko in exchange for granting to Anadarko the right to earn up to 25% in certain lands owned by the Company. The intent of the agreement is for Anadarko and the Company to jointly drill and explore Rosetta prospects over the next three years. In order to earn the maximum working interest percentage, Anadarko must incur \$11.25 million, substantially all of which are exploration drilling expenditures.

The Company has recognized an \$8.6 million gain on this transaction, based on the net proceeds of \$11 million and the presumption that the full \$11.25 million will be incurred. Any exploration expenditures by Anadarko less than the \$11.25 million could result in an adjustment to the calculated gain on the transaction. In February 2005, the Company received \$1.4 million from Anadarko for the purchase of lands on which drilling had occurred prior to the end of 2004.

Annual Results

The Company's focus in 2004 was to begin testing prospects that had been generated over the previous four years in its five major exploration business units. These units have identified 33 wildcat exploration wells to test 11 prospects and 13 leads. The drilling year commenced in February 2004 with the Strachan 10-28 well, which resulted in a discovery and a lead to more prospects. Additional drilling took place in the fourth quarter of 2004 with the drilling of three wells within two of the other business units.

A major success in the year was the joining of forces with Anadarko, which is the commencement of the multi-year strategic partnering relationship for testing ideas in the Company's exploration business units. Their total contribution of \$22.25 million (cash and exploration drilling) over the next three years will earn Anadarko a 25% working interest in Rosetta lands and prospects, subject to certain exclusions.

The Company's financial results were dominated by the \$9.0 million cash payment recorded pursuant to the joint venture arrangement with Anadarko. In addition, the Company raised a net \$6.0 million from a flow-through share issuance at the end of 2004 and, subsequent to year-end, a further net \$6.0 million from a common share issuance in March 2005.

Operations

There were a number of changes to the Company's production assets that occurred through 2004 that should be taken into consideration when comparing the operational results of 2004 versus 2003. Four events that had significance were the third quarter recognition of a working interest in production from the 16-35 Windfall well, the mid-year disposition of limited production from the secondary targets in the Strachan 5-17 and 1-21 wells, the commencement of production from Strachan 10-28 in September, and the commencement of production of a royalty interest in Smokey 9-9. While these events are minor in significance in comparison to the joint venture discussed above, they have effects in terms of increasing the Company's share of oil and natural gas production and the associated revenues during the year.

During the third quarter of 2004, the Company received documentation from the operator of the Windfall 16-35 well confirming that the Company was owed net revenue dating back to the commencement of production of the well in late 2001. The Company's interest was derived from Coast Pacific Geo-Exploration Limited ("Coast"), a corporation that the Company had purchased in 2001. Coast had an agreement with the operator that if the operator drilled on any lands on which Coast had previously shot seismic, then Coast would earn an interest in the well based upon a specified formula. The operator was contacted and the revenues owing were determined and received in the third quarter of 2004.

The following table segregates the net revenue earned from the Windfall well during the various periods, all of which has been included in the Company's net revenue for the year ended December 31, 2004:

	2004	2003	2001-2002	Total
	\$	\$	\$	\$
Revenues	174,442	177,435	538,180	890,057
Royalties	43,588	45,080	136,728	225,396
Production expenses	24,591	23,453	152,343	200,387
Net revenue	106,263	108,902	249,109	464,274

Future production revenues from the Windfall well will be less material as net production has declined from initial rates of 650 mcf/day to 45 mcf/day by the end of 2004.

Also during the third quarter, the Company sold certain shallow assets in the Strachan area of Alberta for cash proceeds of \$845,000; such assets included the two producing wells at Strachan 5-17 and 1-21. Net production from these wells averaged 60 mcf/day during 2004. Disposition of these wells and lands reflects the Company's stated objectives of monetizing assets when possible.

The first well of the Company's 33 well high impact drilling program at Strachan 10-28 was completed and tied in during 2004. The well came on stream in September and has averaged 2.4 mmcf/day gross (318 mcf/day net) production since commencement. The Company has a 13.5% working interest before payout, 28.5% interest after payout, in addition to a gross overriding royalty of 3.75% before payout. Production revenue also commenced in late 2004 from a royalty interest in the Smokey 9-9 well.

Rosetta Exploration Inc.

Management's Discussion and Analysis

The Company's gas and liquids revenue for the year ended December 31, 2004 was \$2,060,366 as compared to 2003 revenue of \$1,036,075. As discussed above, much of the yearly increase was attributable to the Windfall 16-35 well production since inception.

Excluding the Windfall revenues from the prior periods, the Company's production revenue for 2004 as compared to 2003 increased by 30 percent. This increase was related to increased production from the start-up of Strachan 10-28 and offset by the disposition of the two minor Strachan wells and ongoing decline in the Company's remaining well at Strachan 2-22.

In total for the year, the Company recorded daily production of 13 barrels/day and 1,033 mcf/day with average prices of \$36.46 per barrel and \$5.27 per mcf. This compares to 2003 annual results of 3 barrels per day, 385 mcf/day and prices of \$36.65 per barrel and \$6.82 per mcf. Royalty percentages increased in 2004 from 7.6% to 19.5% as the Strachan 2-22 well came off its crown royalty holiday at the beginning of 2004. Operating expenses on a unit basis decreased to \$8.73 per BOE from 2003 rates of \$10.68 per BOE.

Interest expense

Interest expense of \$112,854 was incurred in 2004 and relates to unspent flow-through funds renounced. A total of \$5,999,984 was renounced to investors at the end of 2003 pursuant to the issuance of flow-through shares and this amount of qualifying expenditures was expended by December 31, 2004. The interest was paid to the federal government at the end of February 2005. The comparative interest in the respective 2003 period was \$78,436 on a lesser amount of 2002 flow-through obligations.

Depletion, Depreciation and Asset Retirement Obligations

In 2003, the application of the ceiling test resulted in a write down of \$7.5 million and left the Company with a carrying value for its property and equipment of \$10.9 million as of December 31, 2003. Depletion expense for the year ended December 31, 2004 was a total of \$4,353,656 as compared to 2003 expense of \$2,395,180 prior to the write down. This increase in the current year was mainly due to the increased production volumes attributable to the Windfall well from the latter part of 2001 to the end of 2004. Additional reserves were added from the 2004 fourth quarter drilling program.

The asset retirement obligations at the beginning of the year were estimated at \$296,231. These obligations were increased for additional wells in the amount of \$165,583 and reduced by \$126,160 for wells that were sold. Adjustments for interest rate and reserve life resulted in an increase of \$6,905 with accretion adding another \$25,157, bringing the total estimated obligation as at December 31, 2004 to \$367,716. The assumptions used are based on a total undiscounted obligation of \$571,000 adjusted for a discount rate of 7% and inflation of 2.5%.

Reserves

The Company's total proved reserves at the beginning of the year were 70,856 BOE (converted at 6:1). During 2004, discoveries and revisions, net of dispositions, added 156,792 BOE. After 2004 production of 60,777 BOE, the year-end reserves were 166,870 BOE, which equates to 2.4 times greater than the opening reserves. An independent land evaluation resulted in the Company's 188,554 undeveloped acres being assigned a value of \$5.4 million and an independent seismic evaluation, completed mid-year, assigned the Company's seismic a value of \$10.77 million.

Capital Expenditures

The Company spent \$7.9 million on its capital program during the year ended December 31, 2004. Approximately \$2.0 million was spent on purchasing land in the Company's strategic portfolio areas and \$5.6 million was spent on drilling, completing and equipping wells. The remaining balance was spent on seismic and office equipment.

Proceeds from dispositions for the year ended December 31, 2004 totaled \$1.4 million. These proceeds were a result of the sale of copies of proprietary seismic for \$385,000 and the disposition of the two low volume Strachan wells in the third quarter for \$845,000 with the balance being received from the sale of certain small undeveloped parcels of land.

As a result of the flow-through share issuance in late December 2004, the Company renounced \$6.5 million of expenditures to the investors and must incur the \$6.5 million on qualifying expenditures by the end of 2005. The Company anticipates incurring sufficient qualifying expenditures by year-end through its exploration drilling program, seismic acquisition and other qualifying expenditures.

Taxes

The Company's tax pool coverage has changed significantly from the previous year as a result of the Anadarko transaction. The recognition of the cash and credit proceeds utilized the Company's Canadian Oil and Gas Property Expense ("COGPE") pool balance of \$6.0 million, the Canadian Development Expense ("CDE") pool balance of \$0.7 million with the remaining proceeds being sheltered by the Company's non-capital losses.

At the end of 2004, the Company has tax coverage from its Canadian Exploration Expense ("CEE") pool balance of \$6.6 million, its Undepreciated Capital Cost ("UCC") balance of \$2.2 million and non-capital losses, which total \$4.4 million. The initial \$6.5 million of exploratory drilling costs in 2005 will be renounced to investors.

Liquidity and Capital Resources

The Company commenced 2004 with a working capital balance of \$8.8 million. At the end of the year the working capital balance was \$14.9 million. This change was a result of the following:

	\$ million
January 1, 2004 balance	8.8
Net proceeds from joint venture partner	5.0
Proceeds from joint venture partner (received January 2005)	3.5
Net proceeds from flow-through share issue	6.0
Net capital expenditures	(6.5)
Cash flow utilized	<u>(1.9)</u>
December 31, 2004 balance	14.9

Subsequent to year end, the Company further increased its working capital by an additional net \$6.0 million from the issuance of 8,750,000 shares and by \$1.4 million from the Anadarko payment for the purchase of land. This working capital provides the Company with a significant base from which to continue the drilling of its 33 well high impact exploration program with its joint venture partner.

Rosetta continually reviews all of its assets on a regular basis to identify non-performing assets, which may be disposed of and regularly disposes of such assets to supplement working capital. In addition to its current joint venture agreement, the Company recognizes that in order to fully advance its multi-year exploration program, significant capital will be required and therefore Rosetta will continue to identify capital sources interested in a large portfolio, high-impact, multi-year pure exploration program.

The Company has no off-balance sheet arrangements.

Management's Discussion and Analysis

Share Capital

Share capital at the beginning of the year was 43,190,007 for a value of \$44,355,262. The flow-through issuance in late 2004 resulted in 8,657,133 additional shares for a net value of \$6,022,195. The balance at December 31, 2004, was 51,847,140 shares at a value of \$50,377,457.

Securities outstanding as of April 14, 2005 are 60,597,140 common shares, which include the 8,750,000 share issuance in March 2005.

Stock options at the beginning of 2004 were 3,767,800. During 2004, an additional 20,000 options were granted and 50,000 were cancelled, leaving a balance at December 31, 2004 of 3,737,800 options outstanding. In February 2005, another 940,000 options were granted, which results in a total of 4,677,800 options outstanding as of April 14, 2005.

Commitments

The Company has committed to payments under an operating lease for office premises as follows:

2005	\$ 128,288
2006	\$ 133,223
2007	\$ 133,223
2008	\$ 111,019
	<u>\$ 505,753</u>

The Company has the right of early termination on the lease on October 31, 2005 by paying a penalty of \$85,000 or on October 31, 2006 by paying a penalty of \$60,000.

Related Parties

In order to facilitate a property disposition to a third party during 2004, the Company purchased a royalty interest from one of its employees for cash consideration of \$50,000. This transaction was recorded at its exchange amount.

The Company has paid a cumulative total of \$788,000 (\$nil in 2004) to a private corporation of which two directors of the Company are significant shareholders in return for exclusive use of the proprietary technology being developed. This use was for a minimum of two years. The two-year time frame has ended and the Company has not determined at what level its future use of the technology will be; however, there are plans to use the technology in 2005.

The Year Ahead

The Company intends to drill a number of further exploration wells in the remainder of 2005 across several of its exploration business units. Rosetta has not finalized its 2005 exploration budget as of April 14, 2005. Rosetta and its joint venture partner anticipate finalizing the summer 2005 and winter 2005/2006 exploration budgets in the coming weeks, based upon the evaluation of the 2004/2005 winter's drilling results. The Company will incur, at a minimum, sufficient exploration drilling expenditures to meet its previously stated flow through obligations of \$6.5 million.

In 2005, the Company plans to tie-in and produce at least four of its discoveries from its winter drilling program. Subsequent to year-end, two of these wells commenced production in March 2005 with two additional wells scheduled for tie-in in the summer/fall of 2005. The remaining wells drilled in the winter of 2004/05 will be evaluated in the summer or in the winter of 2005/06 depending on accessibility.

Additional capital resources will be required to complete the full 33 well exploration program over the three year period and develop discoveries to full cash flow potential. Alternatives are available to generate additional working capital, such as disposing of undeveloped land and seismic data, additional equity infusions, plus potential cash flow that could be generated from the proposed exploration program to be incurred in 2005. While the Company will continue to pursue additional joint venture, partnering and financing alternatives, it should be recognized that the nature of its higher risk, higher reward drilling portfolio and the current capital status contribute to additional risk for investors.

Selected Financial Information (\$, except per share amounts)

2004	First Quarter	Second Quarter	Third Quarter (note 1)	Fourth Quarter
Petroleum and natural gas revenue	238,806	236,088	1,088,595	496,877
Cash flow used in operations	(565,860)	(586,706)	(160,965)	(587,645)
Net income (loss)	(1,449,603)	(1,408,614)	(2,225,742)	7,246,415
Net income (loss) per share	(0.03)	(0.04)	(0.05)	0.17
Net capital expenditures	965,086	224,309	518,277	(145,111)

Note 1 – The revenues include prior period adjustments as disclosed earlier in the MD&A under annual results.

2003	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Petroleum and natural gas revenue	279,863	245,094	260,495	250,623
Cash flow used in operations	(460,490)	(447,789)	(437,151)	(596,213)
Net loss	(804,993)	(684,916)	(738,683)	(9,743,345)
Net loss per share	(0.02)	(0.02)	(0.02)	(0.27)
Net capital expenditures	985,419	1,030,155	522,375	2,734,980

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact and credit risk of non-payment for sales contracts and joint venture partners.

Rosetta Exploration Inc.

Management's Discussion and Analysis

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. The Company's risk in regards to credit risk is detailed in note 14 to the consolidated financial statements.

Critical Accounting Estimates

In the application of accounting policies, management is often required to make judgments based on underlying estimates and assumptions about future events and their effects. Underlying estimates and assumptions are based on historical experience and other factors that management believes to be reasonable under the circumstances. These estimates and assumptions are subject to change as new events occur and additional information is obtained. The Company believes the following are the most critical accounting estimates used in the determination of its financial results.

Reserves Estimates

On an annual basis, the Company engages independent petroleum consultants to evaluate 100% of its oil and gas reserves. Reserves engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area, the assumed effects of regulations by governmental agencies and assumptions governing future prices, royalties and operating costs, along with development costs and workover and remedial costs, all of which may in fact vary considerably from actual results.

Reserve estimates are used in the calculation of depletion and depreciation. A change in estimated reserves would result in a higher or lower depletion and depreciation charge to net loss. Downward revisions to reserve estimates could also result in an impairment write-down of capital assets under the ceiling test.

Asset Retirement Obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Estimates of the asset retirement costs are subject to uncertainty associated with the method, timing and extent of future retirement activities.

Income Taxes

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates and the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

Changes in Accounting Policies

During 2004, the Company adopted the following new accounting policy:

Full Cost Accounting

Effective January 1, 2004, the Company has prospectively adopted the Canadian Institute of Chartered Accountants Accounting Guideline 16 on Full Cost Accounting for Oil and Gas companies. In applying the new full cost guideline, the Company calculates its ceiling test by comparing the carrying value of property and equipment to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated fair value of the proved plus probable reserves and the sale of unproved properties. Fair value is estimated using accepted present value techniques, which incorporates risks and other uncertainties when determining expected cash flows. Any excess is recorded as a permanent impairment. The adoption of this pronouncement had no impact on the Company's financial statements.

Auditors' Report

*To the Shareholders of
Rosetta Exploration Inc.*

We have audited the consolidated balance sheets of Rosetta Exploration Inc. as at December 31, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

*Calgary, Alberta
April 8, 2005*

Chartered Accountants

Rosetta Exploration Inc.
Consolidated Balance Sheets
December 31

	2004	2003
Assets		
Current		
Cash and cash equivalents (note 4)	\$ 7,861,887	\$ 7,100,336
Short-term investments (note 5)	6,000,000	2,500,000
Accounts receivable	1,356,936	1,995,043
Joint venture agreement receivable (note 11)	3,500,000	-
Employee loans (note 6)	-	6,375
Prepaid expenses and deposits	180,821	131,812
	<u>18,899,644</u>	<u>11,733,566</u>
Deferred credit (note 11)	2,000,000	-
Property and equipment (notes 8 and 16)	11,253,014	10,946,528
	<u>\$ 32,152,658</u>	<u>\$ 22,680,094</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 3,976,549	\$ 2,924,502
Asset retirement obligations (note 9)	367,716	296,231
	<u>4,344,265</u>	<u>3,220,733</u>
Commitments (note 13)		
Shareholders' Equity		
Share capital (note 10)	50,377,457	44,355,262
Contributed surplus (note 10)	356,749	192,368
Deficit	(22,925,813)	(25,088,269)
	<u>27,808,393</u>	<u>19,459,361</u>
	<u>\$ 32,152,658</u>	<u>\$ 22,680,094</u>

See accompanying notes.



Robert McKenzie,
Director



Murph Hannon,
Director

Consolidated Statements of Operations and Deficit

Years Ended December 31

	2004	2003
Revenue		
Petroleum and natural gas sales (note 7)	\$ 2,060,366	\$ 1,036,075
Royalties, net of ARTC (note 7)	(402,017)	(78,546)
	<u>1,658,349</u>	<u>957,529</u>
Interest income	150,101	221,557
	<u>1,808,450</u>	<u>1,179,086</u>
Expenses		
Production (note 7)	550,445	261,825
Accretion (note 9)	25,157	6,434
General and administrative	3,210,708	2,917,929
Interest	112,854	78,436
Depletion and depreciation (note 8)	4,353,656	9,850,180
	<u>8,252,820</u>	<u>13,114,804</u>
Loss for the year before gain on joint venture arrangement and income taxes	(6,444,370)	(11,935,718)
Gain on joint venture arrangement (note 11)	<u>8,606,826</u>	<u>-</u>
Income (loss) for the year before income taxes	<u>2,162,456</u>	<u>(11,935,718)</u>
Income taxes (note 12)		
Capital taxes	-	36,219
	<u>-</u>	<u>36,219</u>
Net income (loss) for the year	<u>2,162,456</u>	<u>(11,971,937)</u>
Deficit, beginning of year	(25,088,269)	(13,116,332)
Deficit, end of year	<u>\$ (22,925,813)</u>	<u>\$ (25,088,269)</u>
Net income (loss) per share – basic and diluted (note 10)		
Before gain on joint venture	\$ (0.15)	\$ (0.33)
Gain on joint venture	0.20	-
After gain on joint venture	<u>\$ 0.05</u>	<u>\$ (0.33)</u>

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31

	2004	2003
Operating		
Net income (loss) for the year	\$ 2,162,456	\$ (11,971,937)
Items not affecting cash flow:		
Stock based compensation	164,381	173,680
Accretion	25,157	6,434
Depletion and depreciation	4,353,656	9,850,180
Gain on joint venture arrangement (note 11)	(8,606,826)	-
	(1,901,176)	(1,941,643)
Changes in non-cash working capital (note 15)	836,588	186,861
	(1,064,588)	(1,754,782)
Financing		
Issue of common shares, net of issue costs (note 10)	6,022,195	5,849,157
Employee loans (note 6)	-	(6,375)
Employee loans repaid	6,375	16,000
	6,028,570	5,858,782
Investing		
Expenditures on undeveloped land	(1,989,923)	(973,525)
Expenditures on seismic	(279,263)	(1,114,318)
Expenditures on major development projects	(721,271)	(4,004,704)
Expenditures on developed properties	(4,387,743)	(168,313)
Expenditures on equipment	(469,276)	(12,636)
Expenditures on office equipment	(68,976)	(63,865)
Proceeds on disposal of property and equipment	1,377,531	1,064,432
Redemption (purchase) of short-term investment	(3,500,000)	1,500,000
Net proceeds from joint venture arrangement (note 11)	5,031,933	-
Changes in non-cash working capital (note 15)	804,557	(1,969,726)
	(4,202,431)	(5,742,655)
Increase (decrease) in cash and cash equivalents	761,551	(1,638,655)
Cash and cash equivalents, beginning of year	7,100,336	8,738,991
Cash and cash equivalents, end of year	\$ 7,861,887	\$ 7,100,336

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2004

1. Nature of operations

Rosetta Exploration Inc. (the "Company") is engaged in the exploration for development and production of petroleum and natural gas predominately in Western Canada. The Company was incorporated under the laws of the Province of Alberta and is listed on the TSX Venture Exchange.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiaries, Villam Resources Co., a Montana corporation, and 1141523 Alberta Ltd. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Property and equipment

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration, development and production of petroleum and natural gas reserves are capitalized to either a Canadian or United States cost centre. Costs include lease acquisition costs, lease rentals on undeveloped properties, geological and geophysical expenses and costs of drilling both productive and non-productive wells and equipment costs. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such disposition would alter the depletion rate by more than 20%. Office equipment is recorded at cost.

ii) Depletion and depreciation

Depletion and depreciation of undeveloped land, seismic and producing assets, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes the cost of undeveloped land at the rate of 20% per year. The cost of a major development project is excluded until an economic evaluation has been completed. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

iii) Impairment test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of property and equipment is compared to the sum of the undiscounted cash flows expected to result from the future production of proved reserves and the fair market value of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying value would be recorded as a permanent impairment.

Undeveloped land and seismic are excluded from the ceiling test. For undeveloped land, an independent land evaluation is compared to the Company's net book value. The majority of the seismic is non-proprietary and therefore, the carrying value of the seismic is reviewed on a prospect by prospect basis and is written off when it is determined the prospects are impaired.

b) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and the ceiling test are based on estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the consolidated financial statements of changes in such estimates in future periods could be material.

Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal and regulatory environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment is made to the property and equipment balance.

c) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based on estimated gross proven reserves as determined by independent engineers. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the asset retirement obligations and the recorded liability is recognized as a gain or loss in the Company's statement of operations in the period in which the settlement occurs.

d) Joint operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the benefits renounced to subscribers. The tax effect of the renouncement is recorded when the renouncement is filed with the investors and the corresponding exploration expenditures are incurred or are reasonably likely to be incurred within the permitted time frame.

f) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded to the extent that the realization of future tax assets is not more likely than not.

Notes to the Consolidated Financial Statements

December 31, 2004

g) Revenue recognition

Petroleum and natural gas sales are recognized in earnings when reserves are produced and delivered to the purchaser. Interest income is recognized on a monthly basis as earned.

h) Per share amounts

The Company utilizes the treasury stock method in the determination of diluted per-share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, common shares of the Company at their average market price for the period.

i) Stock options

Under the Company's stock option plan described in note 10, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices or higher. Stock-based compensation expense is recorded in the statement of operations for all options granted, with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values on the options at the time of the grant as determined using a Black Scholes option model. The expense is recognized on a straight-line basis over the vesting period of the option. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that vested options are cancelled, previously recognized compensation expense associated with such stock options is reversed. Options granted prior to January 1, 2003 have not been accounted for using the fair value approach.

3. Change in accounting policy

Effective January 1, 2004, the Company has prospectively adopted the Canadian Institute of Chartered Accountants Accounting Guideline 16 on Full Cost Accounting for Oil and Gas companies. In applying the new full cost guideline, the Company calculates its ceiling test by comparing the carrying value of property and equipment to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are based on third party quoted forward prices, adjusted for transportation and quality. Should the ceiling test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated fair value of the proved plus probable reserves and the sale of unproved properties. Fair value is estimated using accepted present value techniques which incorporates risks and other uncertainties when determining expected cash flows. Any excess is recorded as a permanent impairment. The adoption of this pronouncement had no impact on the Company's financial statements.

4. Cash and cash equivalents

	2004	2003
Cash in bank	\$ 2,861,887	\$ 100,336
Term deposits	5,000,000	7,000,000
	<u>\$ 7,861,887</u>	<u>\$ 7,100,336</u>

The term deposits outstanding as at December 31, 2004 and 2003 have terms of 90 days or less at the date of inception and bear interest at an average rate of 2.3% (2003 – 2.6%).

5. Short-term investments

As at December 31, 2004, the short-term investments of \$6,000,000 bear interest at 2.3% and mature in February, April and May 2005. At December 31, 2003, the short-term investments bore interest at an average rate of 2.6%.

6. Employee loans

Loans previously granted to employees under the Company's Employee Share Purchase Plan from 2003 have all been retired within their one-year period. No new loans have been granted in 2004.

7. Revenue from Windfall well

During the third quarter of 2004, the Company received documentation from the operator of the Windfall 16-35 well confirming that the Company was owed net revenue dating back to the commencement of production of the well in late 2001. The Company's interest was derived from Coast Pacific Geo-Exploration Limited ("Coast"), a corporation that had been purchased in 2001. Coast had an agreement with the operator that if the operator drilled on any lands on which Coast had previously shot seismic, then Coast would earn an interest in the well based on a specified formula. The operator was contacted and the revenues owing were determined and received in the third quarter of 2004. The Company has included this net revenue in the results for the year ended December 31, 2004. The following table segregates the net revenue earned during the various periods:

	2004	2003	2001-2002	Total
	\$	\$	\$	\$
Revenues	174,442	177,435	538,180	890,057
Royalties	43,588	45,080	136,728	225,396
Production expenses	24,591	23,453	152,343	200,387
Net revenue	106,263	108,902	249,109	464,274

Notes to the Consolidated Financial Statements

December 31, 2004

8. Property and equipment

December 31, 2004				
	Cost	Accumulated depletion and depreciation	Accumulated impairment	Net
Canadian cost centre				
Land	\$ 8,034,478	\$ 3,387,100	\$ 500,000	\$ 4,147,378
Seismic	6,569,952	2,982,297	1,708,300	1,879,355
Drilling	18,203,546	2,793,665	10,695,085	4,714,796
Equipment	1,502,589	676,849	481,839	343,901
United States cost centre	932,912	344,914	587,998	-
Office equipment	686,995	519,411	-	167,584
	<u>\$ 35,930,472</u>	<u>\$ 10,704,236</u>	<u>\$ 13,973,222</u>	<u>\$ 11,253,014</u>

December 31, 2003				
	Cost	Accumulated depletion and depreciation	Accumulated impairment	Net
Canadian cost centre				
Land	\$ 8,143,278	\$ 1,582,400	\$ 500,000	\$ 6,060,878
Seismic	7,324,593	1,446,697	1,708,300	4,169,596
Drilling	13,045,812	1,971,965	10,695,085	378,762
Equipment	1,179,510	586,249	481,839	111,422
United States cost centre	932,912	344,914	587,998	-
Office equipment	644,225	418,355	-	225,870
	<u>\$ 31,270,330</u>	<u>\$ 6,350,580</u>	<u>\$ 13,973,222</u>	<u>\$ 10,946,528</u>

As at December 31, 2004, undeveloped land includes \$1,604,500 (2003 - \$1,813,900), which has been excluded from the depletion calculation.

The Company did not capitalize any general and administrative costs during 2004 and 2003.

The Company applied the ceiling test to its capitalized assets at December 31, 2004 and determined that there was no impairment of costs requiring a write-down. For the purposes of the December 31, 2004 impairment test of property and equipment, the following benchmark prices were used:

	Gas Reference Price \$/mcf	NGL Reference Price \$/bbl
2005	6.81	44.39
2006	6.52	42.26
2007	6.28	40.31
2008	6.09	38.32
2009	6.04	-
Thereafter (inflation %)	1.5% per year	

At December 31, 2003, the Company recorded a ceiling test impairment of \$6,423,500, as well as reduced the carrying value of its seismic assets by \$600,000 and the carrying value of its undeveloped land assets by \$500,000. The total impairment amount of \$7,523,500 was included in depletion and depreciation.

9. Asset retirement obligations

The following table presents the reconciliation of the carrying amount of the obligations associated with the retirement of the property and equipment:

	2004	2003
Asset retirement obligations, beginning of year	\$ 296,231	\$ 262,772
Liabilities incurred	165,583	28,184
Reduction of liability from property disposition	(126,160)	-
Adjustment for change of risk-free interest rate and reserve life	6,905	-
Accretion expense	25,157	6,434
Liabilities settled	-	(1,159)
Asset retirement obligations, end of year	\$ 367,716	\$ 296,231

The following significant assumptions were used to estimate the asset retirement obligations:

	2004	2003
Undiscounted cash flows	\$ 571,000	\$ 331,600
Credit adjusted discount rate, adjusted for inflation	7.0%	2.63%
Weighted average expected timing of cash flows	4.5 years	3.8 years

Notes to the Consolidated Financial Statements

December 31, 2004

10. Share capital

a) Authorized

Unlimited number of Class A and B common shares, no par value

Unlimited number of Class A preferred shares, issuable in series, no par value

b) Issued

Class A common shares	Number of Shares	
Balance – December 31, 2002	35,731,202	\$ 38,506,105
Private placement (ii)	400,000	320,000
Flow-through Class A common shares (iii)(v)	7,058,805	5,999,984
Share issue costs	-	(470,827)
Balance – December 31, 2003	43,190,007	\$ 44,355,262
Flow-through Class A common shares (iv)(vi)	8,657,133	6,492,850
Share issue costs	-	(470,655)
Balance – December 31, 2004 (i)	51,847,140	\$ 50,377,457

Contributed surplus

Balance – December 31, 2002	\$ 18,688
Stock option compensation	173,680
Balance – December 31, 2003	\$ 192,368
Stock option compensation	164,381
Balance – December 31, 2004	\$ 356,749

i) Subsequent to December 31, 2004, a private placement was completed for the issuance of 8,750,000 common shares at \$0.75 per share for gross proceeds of \$6,562,500. The total issued and outstanding common shares subsequent to this private placement is 60,597,140.

ii) During 2003, 400,000 Class A common shares were issued at \$0.80 per share for gross proceeds of \$320,000.

iii) During 2003, 7,058,805 flow-through Class A common shares were issued at \$0.85 per share for gross proceeds of \$5,999,984.

iv) During 2004, 8,657,133 flow-through Class A common shares were issued at \$0.75 per share for gross proceeds of \$6,492,850.

v) The Company records the tax value of qualifying expenditures renounced under flow-through agreements as a cost of capital when the renouncement is filed with the investors. Effective December 31, 2003 the Company renounced \$5,999,984 in respect of flow-through shares issued in 2003. Of the amount renounced in 2003, \$1,439,400 was incurred to December 31, 2003 and the remaining qualifying expenditures of \$4,560,584 were incurred in 2004. The tax effect of these qualifying expenditures has been reduced by previously unrecognized tax assets of \$2,324,500.

vi) The Company renounced \$6,492,850 in respect of flow-through shares issued in 2004. Of the amount renounced in 2004, \$43,800 was incurred to December 31, 2004 and the remaining qualifying expenditures will be incurred in 2005. The tax effect of these qualifying expenditures will be recognized in 2005 when the renouncement is filed with the investors.

c) Options outstanding

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the plan, the options that have been granted prior to 2003, expire on the earlier of September 29, 2005 or 30 days (six months for those granted in 1999) from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company. For the options granted during 2003 and after, they expire on the earlier of five years from issue date or 30 days from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company. The options vest at varying times ranging from immediately vesting on date of grant to vesting over a period of three years.

Shares have been reserved for the following outstanding stock options:

	Year ended December 31, 2004		Year ended December 31, 2003	
	Shares	Weighted-Average Exercise Price \$	Shares	Weighted-Average Exercise Price \$
Opening	3,767,800	1.23	2,622,800	1.36
Cancelled	(50,000)	1.40	(100,000)	1.50
Granted	20,000	1.00	1,245,000	1.00
Closing	3,737,800	1.22	3,767,800	1.23

Subsequent to December 31, 2004, an additional 940,000 options were granted at an exercise price of \$0.79.

The following summarizes information about stock options outstanding as at December 31, 2004:

Exercise Price \$	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$	Number Exercisable	Weighted Average Exercise Price \$
1.00	1,835,000	3.0	1.00	1,406,675	1.00
1.25	480,000	0.7	1.25	480,000	1.25
1.50	1,422,800	0.8	1.50	1,422,800	1.50
	3,737,800	1.8	1.22	3,309,475	1.25

The Company recognized \$161,780 (2003 - \$161,780) of stock-based compensation expense for options granted during 2003, and \$2,601 for options granted in 2004.

The assumptions made for the options granted in 2004 include a volatility factor of expected market price of 104%, a weighted average risk-free interest rate of 2.6%, no dividend yield and a weighted average expected life of options of five years.

The assumptions made for the options granted in 2003 include a volatility factor of expected market price of 103%, a weighted average risk-free interest rate of 2.6%, no dividend yield and a weighted average expected life of options of five years.

Notes to the Consolidated Financial Statements

December 31, 2004

For options granted in 2002, the Company's net loss would be increased by \$29,394 for the year ended December 31, 2004 (2003 - \$152,000). There is no change to the basic and diluted net loss per share figures.

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year of 43,659,750 (2003 - 36,799,217). In computing diluted per share amounts, all of the Company's 3,737,800 (2003 - 3,767,800) outstanding options were excluded from the calculation of the weighted average number of common shares outstanding as they were considered to be anti-dilutive.

11. Joint venture arrangement

The Company has entered into a joint venture relationship with a major US based energy exploration corporation ("JV Partner"). Under the terms of the agreement, the Company will receive a total of \$11 million, comprised of a \$5.5 million cash payment received in October 2004, a \$3.5 million cash payment received in January 2005 and a credit of \$2.0 million towards purchases of land and seismic from the JV Partner in exchange for granting to the JV Partner the right to earn up to 25% in certain lands owned by the Company. The intent of the agreement is for the Company and the JV Partner to jointly drill and explore Rosetta prospects. In order to earn the maximum working interest percentage, the JV Partner must incur \$11.25 million, substantially all of which are exploration drilling expenditures. Any expenditures less than the \$11.25 million will result in a recapture of a portion of the \$1,925,107 land and seismic estimated net book value shown below. The gain recorded for the transaction has been calculated as follows:

Cash payment received or receivable	\$	9,000,000
Deferred credit		2,000,000
Costs of transaction		(468,067)
Net proceeds from joint venture arrangement		<u>10,531,933</u>
Estimated net book value of land and seismic (25%) ⁽ⁱ⁾		<u>(1,925,107)</u>
Gain on joint venture arrangement	\$	<u>8,606,826</u>

⁽ⁱ⁾Contingent upon the JV Partner spending the \$11.25 million.

12. Income taxes

The Company's computation of income tax expense is as follows:

	2004	2003
Expected income tax (recovery) at 38.87% (2003 - 40.75%)	\$ 840,547	\$ (4,863,805)
Crown payments	102,367	10,836
Resource allowance	82,715	127,818
Non-deductible items	68,697	71,324
Other	(53,464)	(129)
Capital taxes	-	36,219
Unrecognized tax benefits	(1,040,862)	4,653,956
Income tax	\$ -	\$ 36,219

Components of future income taxes:

The Company has not recognized net future tax assets as reflected by the valuation adjustment reported below. The net future tax asset (liability) is comprised of:

	2004	2003
Non-capital loss carryforwards	\$ 1,493,386	\$ 2,291,223
Asset retirement obligations	123,626	102,555
Share issue costs	286,020	275,035
Net book value of assets in excess of tax basis	(1,397,848)	-
Tax basis of assets in excess of net book value	-	906,342
Valuation allowance	(505,184)	(3,575,155)
	\$ -	\$ -

As at December 31, 2004, the Company has approximately \$8,800,000 in tax pools and \$4,400,000 in non-capital losses available for deduction against future taxable income.

Non-capital losses expire as follows:

2007	\$ 500,000
2008	1,300,000
2009	1,200,000
2010	1,400,000
	<u>\$ 4,400,000</u>

13. Commitments

The Company has the following annual rental commitments on office premises pursuant to a lease, which expires on October 31, 2008:

2005	\$ 128,288
2006	\$ 133,223
2007	\$ 133,223
2008	\$ 111,019
	<u>\$ 505,753</u>

The Company has the right of early termination on the lease on October 31, 2005 by paying a penalty of \$85,000 or on October 31, 2006 by paying a penalty of \$60,000.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

Notes to the Consolidated Financial Statements

December 31, 2004

14. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash and cash equivalents, short-term investments, accounts receivable, deposits, employees' loans, and accounts payable. As at December 31, 2004 and 2003 there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any financial derivative contracts.

b) Credit Risk

The majority of the Company's accounts receivable are in respect of oil and natural gas operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

15. Changes in non-cash working capital

	2004	2003
Accounts receivable	\$ 638,107	\$ 428,202
Prepaid expenses and deposits	(49,009)	(41,164)
Accounts payable and accrued liabilities	1,052,047	(2,169,903)
	<u>\$ 1,641,145</u>	<u>\$ (1,782,865)</u>

The change in non-cash working capital has been allocated to the following activities:

	2004	2003
Operating	\$ 836,588	\$ 186,861
Investing	\$ 804,557	\$ (1,969,726)

16. Related parties

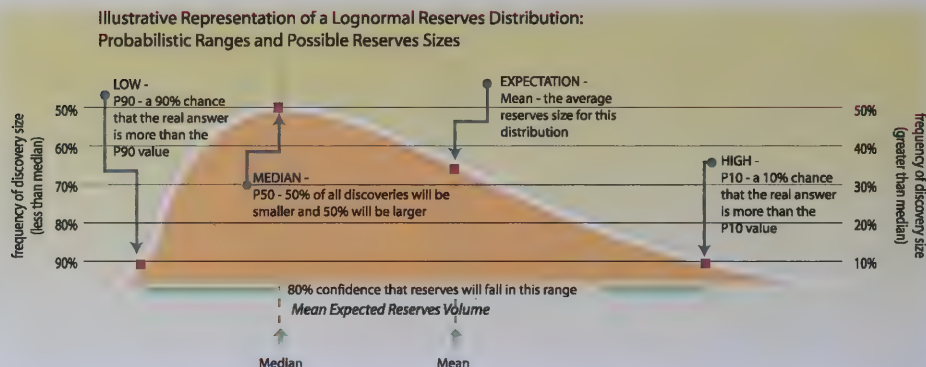
- a) The Company paid approximately \$nil (2003 - \$208,000) during the year, for a cumulative total of \$788,000 (2003 - \$788,000), to a private corporation of which two directors of the Company are significant shareholders, in return for exclusive use of the proprietary technology being developed, for a minimum of two years. This amount is included in the seismic category in property and equipment.
- b) In 2004, the Company purchased a royalty interest from one of its employees for cash consideration of \$50,000 in order to facilitate a subsequent property disposition by the Company to a third party.
- c) In 2003, the Company purchased an undeveloped property from one of its employees for cash consideration of \$30,000.

All of these transactions have been recorded at their exchange amounts.

17. Subsequent event

The Company received \$1.4 million in February 2005, for the purchase of certain oil and gas properties. This payment qualifies as part of the \$11.25 million expenditures pursuant to the joint venture agreement as described in note 11.

Rosetta Exploration Inc. Definitions



Deterministic Reserve Estimates

When calculating reserves ranges for a Prospect, our geoscientists use a deterministic approach estimating ranges for parameters such as areal extent, net pay, porosity, hydrocarbon saturation, etc. This results in a range of "Low," "Expectation" and "High" for potential reserves for a Prospect. We then balance this with a probabilistic review of potential reserves.

P-value - Estimating with Probabilistic Ranges

The p-value for a Prospect, Lead or Play, as used in this document, is the likelihood of a successful discovery being greater than or equal to the value given. For instance, a "P-50" statistical significance level means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 50% of the time. Alternatively, a "P-10" statistical significance level means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 10% of the time, and for a "P-90" statistical significance level, we would expect that reserves value, or greater, 90% of the time. Stated differently, for a particular Prospect, we would expect a successful drilling result to discover the P-50 reserves value, 5 times out of ten and that we have an 80% confidence level of a successful result discovering between the P-10 and the P-90 reserves values. Statistically, for a large portfolio, the best single representation of

a lognormal distribution is the mean. These ranges are particularly important for a portfolio program of independent Prospects such as Rosetta's. Given a sufficiently large program and valid assumptions for each Prospect, it is possible to estimate the chance of SOME success over the course of the program and what the range of expected outcomes might be.

Rosetta Geologic Satellite

An independent geoscientist who has worked a number of years on developing a new large exploration idea and wants the support of Rosetta's approach, values and resources.

New Play Type

A geological concept that does not conform with the conventional interpretation of the geology of the WCSB but which, if proven true, could lead to discoveries of greater than one TCF.

Conventional Prospecting

Conventional prospecting uses well established or mainstream geologic models, often with an innovative approach that could unlock a large discovery for Rosetta.

Rosetta Exploration Inc.

Corporate Information

Officers

Jim Malcolm
Glenn Gradeon
Ross Clark
Robyn Lore
Mike Heule
Greg Kondro
Bob Malcolm, Q.C.

Board of Directors

Jim Malcolm
Alfred Balm
Kevin Brown
Murph Hannon
Robert McKenzie
Michael Pfeiffer
Randy Royer

Exploration Advisory Board

Dr. Bill Ayrton
Nor Hannon Jr.
Ralph Hughes
Ed McMaster
Hugh Reid
Allan Shepard
Dr. Easton Wren

Committees

Audit Committee

The Audit Committee reviews and recommends approval of the Company's financial statements to the Board of Directors in addition to ensuring that appropriate internal controls over accounting and financial reporting systems are met. Members of this committee are: Kevin Brown, Murph Hannon and Bob McKenzie.

Compensation Committee

The Compensation Committee guides the salary level of directors, officers and employees, awards stock options to personnel and reviews the general competitiveness of the Company's compensation and benefits plan. Members of this committee are: Kevin Brown and Michael Pfeiffer.

Governance Committee

The Governance Committee primarily oversees corporate disclosure practices, securities trading practices and an effective system of accountability. Members of this committee (2004): Michael Pfeiffer and Greg Royer.

Reserves Committee

The Reserves Committee's primary mandate is to review the qualifications of and process used by the Company's independent engineering firm in preparing the annual reserves evaluation. Members of this committee are: Kevin Brown and Murph Hannon.

Shareholder Information

Stock Exchange Listing
TSX Venture Exchange
Trading Symbol: RSA

Registrar and Transfer Agent

CIBC Mellon
Calgary, Alberta

Investor Relations

Christian Brown
Communications Team Leader
Telephone: 403.221.7709
E-mail:
cbrown@rosettaexploration.com

Head Office

Suite 2100, 801 6th Ave S.W.
Calgary, Alberta T2P 3W2
Telephone: 403.221.7700
E-mail:
info@rosettaexploration.com
www.rosettaexploration.com

Bankers

Royal Bank of Canada
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Legal Counsel

Macleod Dixon LLP
Calgary, Alberta

Reserves Consultants

Reliance Engineering Group
Calgary, Alberta

Rosetta Exploration Inc.

Abbreviations and Equivalents

Abbreviations

BBLS/d	- barrels of oil per day
BCF	- billion cubic feet
BCFe	- billion cubic feet equivalent
BOE	- barrel of oil equivalent
BOE/d	- barrel of oil equivalent per day
D&A	- drill and abandon
MMBOE	- million barrels of oil equivalent
MCF	- thousand cubic feet
MCFe	- thousand cubic feet equivalent
MMCF/d	-million cubic feet per day
MMCFe	- million cubic feet equivalent
MSTB	- one thousand stock tank barrels of oil
MLT	- one thousand long tons
NGL	- natural gas liquids
TCF	- trillion cubic feet

Equivalents

1 barrel of oil = 6 mcf of gas

Forward Looking Statements

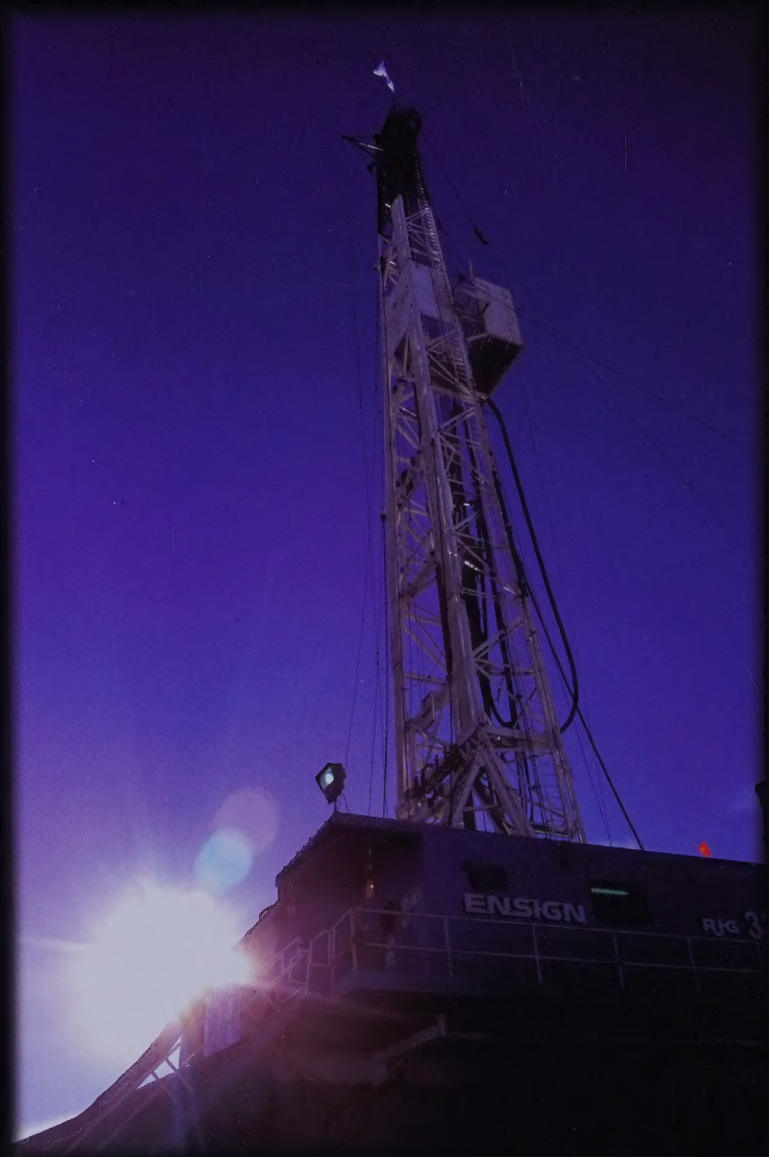
This annual report includes statements about expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties. Rosetta cautions that actual performance will be affected by a number of factors, many of which are beyond its control. It should also be noted that additional capital resources over and above current working capital will be required to develop and drill the Company's portfolio of prospects. Alternatives are available to generate additional cash flow, such as disposing of undeveloped land and seismic data, additional equity infusions, plus potential new cash flow that could be generated from various opportunities. While the Company will continue to vigorously pursue financing, joint venture and partnering alternatives, it should be recognized that its current capital constraints introduce additional risk for investors. Owning and/or controlling the land for the projects outlined in this report is vital to successful implementation of Rosetta's plans. There is a risk that Rosetta will be unable to purchase or control these vitally necessary lands. The Company's future exploration and development success cannot be predicted with certainty and crude oil and natural gas prices may change significantly in the future. Rosetta's ability to meet its primary objective of maximizing shareholder wealth is influenced by a number of factors, including the Company's ability to find oil and gas reserves economically and produce or monetize them efficiently. The oil and gas industry involves a wide variety of business risks which impact all participants and their financial viability. These risks include, but are not limited to: risks associated with finding, acquiring, developing, producing and monetizing oil and gas properties at economic costs; securing markets for production or monetization of assets; fluctuating commodity prices and exchange rates; and, changes to government and other regulations. Many of these business risks can be assessed, managed and mitigated through the adherence to well defined strategies included in the Company's business plan.



Annual and Special Meeting

Friday, May 27, 2005 at 10:00 a.m. in the
Marquis Room of the Fairmont Palliser Hotel,
133 - 9th Ave S.W., Calgary, Alberta.

The best is yet to come



ROSETTA EXPLORATION INC.